



XREALITY GROUP LIMITED

xReality Group Limited (ASX:XRG)

ACN 154 103 607

ASX Release

Sydney, Australia – 31 March 2025

Notice of Extraordinary General Meeting and Shareholder Booklet

xReality Group Limited (ASX:XRG) (“xReality” or the “Company”) announces an Extraordinary General Meeting (EGM) to be held 2:00 pm (Sydney time) on Wednesday, 30 April 2025. The meeting will be held in person at Level 9, 1 Chifley Square, Sydney NSW.

On 05 March 2025 the Company announced to the market that we had entered into an agreement with Birkdale Holdings (Qld) Pty Ltd (Birkdale), a company associated with former director, Steve Baxter and the largest shareholder, to convert their \$4.628 million debt to equity, at \$0.05 per share, which was a 39% premium, to the closing share price the previous day. This agreement is subject to shareholder approval.

The purpose of this EGM is to seek shareholder approval for this transaction.

The Board sees this as an extraordinary opportunity to strengthen the balance sheet of the company, and acknowledges the confidence that Birkdale is showing in the future of the Company. Steve Baxter’s continued support, through Birkdale, is a testament to the strength of our business and the game-changing potential of Operator XR.

The Company engaged Titan Partners Corporate Finance Pty Limited (Titan) to prepare an Independent Expert’s Report (IER), which is included in the Notice of Meeting, and they opined that the transaction was “not fair”, as it “was priced below their assessment of the value of an XRG share prior to the Proposed Transaction on a control basis” for the reasons set out in the IER, but “reasonable” as it was priced at a 39% premium to the closing share price on the previous day.

Titan concluded that despite not being fair, but considering other significant factors, it is reasonable, and **shareholders should accept the offer in the absence of any higher bid before the close of the offer.**

Attached is the Shareholder Booklet which contains the Notice of Meeting and IER, and explains in detail the proposed transaction, how it will benefit the Company, and how Shareholders can vote at the EGM. Copies of this booklet including the Independent Expert’s Report can also be found on the Company’s website at www.xrgroup.com.au/investors.

The Directors of the Company unanimously recommend that shareholders vote in favour of the resolution.

This ASX release is authorised by the Board of xReality Group Limited.



XREALITY GROUP LIMITED

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About xReality Group Limited (ACN: 154 103 607)

xReality Group Limited are leaders in enterprise software development for mission critical simulations for military and law enforcement. The company develops and operates physical and digital simulations.

Operator XR provides Military and Law Enforcement agencies with a unique, integrated Mission Planning & Rehearsal System, which is portable, secure and highly immersive. See operatorxr.com

The Company is listed on ASX on under the code XRG.

For further information visit: www.xrgroup.com.au

Wayne Jones, Chief Executive Officer, wjones@xrgroup.com.au

Stephen Tofler, Company Secretary, stofler@xrgroup.com.au

For personal use only



XREALITY GROUP LTD

(ABN 39 154 103 607)

(ASX:XRG)

Shareholder Booklet

Issue of Shares to Birkdale Holdings (Qld) Pty Ltd (ACN 120 407 981) as trustee for the Baxter Family Trust

A notice of meeting is included in Appendix 1 to this Booklet. A personalised Proxy Form will have been sent to you by the share registry.

Your vote is important in determining whether the Transaction proceeds. This is an important document and requires your urgent attention.

If you are in any doubt as to how to deal with this Booklet, please consult your legal, financial, taxation or other professional adviser immediately.

If you have recently sold all of your Shares, please disregard all enclosed documents.

For personal use only

Important Notices

General

You should read this Booklet in its entirety before making a decision on how to vote on the Resolution to be considered at the General Meeting. The notice convening the General Meeting is contained in Appendix 1. A Proxy Form for the meeting has been sent by the share registry.

Defined terms

Capitalised terms in this Booklet are defined either in the Glossary in Section 7 of this Booklet or where the relevant term is first used.

References to **dollars** or **\$** are references to the lawful currency of Australia. Any discrepancies between the totals and the sum of all the individual components in the tables contained in this Booklet are due to rounding.

Purpose of this Booklet

The purpose of this Booklet is to:

- explain the terms and effect of the Transaction to Shareholders; and
- provide such information as is prescribed by the Listing Rules.

ASX

A copy of this Booklet has been lodged with ASX. None of ASX or any of its officers takes any responsibility for the contents of this Booklet.

Input from other parties

The information contained in this Booklet has been prepared by xReality Group Ltd (ABN 39 154 103 607) (**Company**) and is the responsibility of the Company. The Company does not assume responsibility for the accuracy or completeness of any other part of this Booklet and assumes responsibility only to the extent required by law.

Investment decisions

This Booklet does not take into account the investment objectives, financial situation, tax position and requirements of any particular person. This Booklet should not be relied on as the sole basis for any investment decision in relation to Shares. Independent financial and taxation advice should be sought before making any decision to invest in the Company or in relation to the Transaction. It is important that you read the entire Booklet before making any voting or investment decision.

Shareholders should carefully consider these factors in light of their particular investment objectives, financial situation, tax position and requirements. If Shareholders are in any doubt on these matters, they should consult their legal, financial, taxation or other professional adviser before deciding how to vote on the Transaction. Past performance is no indication of future performance.

Forward looking statements

This Booklet includes certain prospective financial information which has been based on current expectations about future events. The prospective financial information is, however, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from the expectations described in such prospective financial information. Factors which may affect future financial performance include, among other things, those identified in Section 2. The assumptions on which prospective financial information is based may prove to be correct or may be affected by matters not currently known to, or considered material by, the Company.

Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected. None of the Company, the officers of the Company or any person named in this Booklet makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. You are cautioned not to place undue reliance on those statements.

The forward looking statements in this Booklet reflects views held only as at the date of this Booklet.

Electronic document

This Booklet may be viewed online at www.xrgroup.com.au/investors/. A paper copy of this Booklet will be provided free of charge to any person who requests a copy by contacting the Company.

Important dates and times

Date of this Booklet	Monday, 31 March 2025
Last time and date by which the Proxy Form for the General Meeting must be received	2:00 pm (Sydney time) on Monday, 28 April 2025
Time and date for determining eligibility to vote at the General Meeting	2:00 pm (Sydney time) on Monday, 28 April 2025
General Meeting* to vote on the Transaction	2:00 pm (Sydney time) on Wednesday, 30 April 2025

* The General Meeting will be held at the offices of Accru Felters, Level 9, 1 Chifley Square, Sydney.

You should consult your legal, financial, taxation or other professional adviser concerning the impact your decision may have on your own circumstances.

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Chairman's letter

31 March 2025

Dear Shareholder

On behalf of the Directors of xReality Group Limited ABN 39 154 103 607 (**Company**), I am pleased to invite you to attend the Extraordinary General Meeting (**Meeting**) of the Company.

The Meeting will be held at the offices of Accru Felsers, Level 9, 1 Chifley Square Sydney on Wednesday, 30 April 2025 at 2:00 pm (AEST).

On 05 March 2025 we announced to the market that we had entered into an agreement with Birkdale Holdings (Qld) Pty Ltd (**Birkdale**), a company associated with former director, Steve Baxter and the largest shareholder, to convert their \$4.628 million debt to equity, at \$0.05 per share, which was a 39% premium, to the closing share price the previous day. This agreement is subject to shareholder approval.

The Board sees this as an extraordinary opportunity to strengthen the balance sheet of the company, and acknowledges the confidence that Birkdale is showing in the future of the Company. Steve Baxter's continued support, through Birkdale, is a testament to the strength of our business and the game-changing potential of Operator XR.

The Company engaged Titan Partners Corporate Finance Pty Limited (Titan) to prepare an Independent Expert's Report (IER), which is included in the Notice of Meeting, and they opined that the transaction was "not fair", as it "was priced below their assessment of the value of an XRG share prior to the Proposed Transaction on a control basis" for the reasons set out in the IER, but "reasonable" as it was priced at a 39% premium to the closing share price on the previous day.

Titan concluded that despite not being fair, but considering other significant factors, it is reasonable, and **shareholders should accept the offer in the absence of any higher bid before the close of the offer**".

We strongly advise you to vote in favour of the resolution.

We will not be sending you a hard copy of the Notice of Meeting or Independent Expert's Report by mail ahead of the meeting, but have made them available on the Company's website at www.xrgroup.com.au/investors/.

I encourage you to lodge your personalised Proxy Form that has been sent to you by the registry no later than 2:00 pm (AEST) on Monday 28 April 2025, or to vote by attending the meeting in person on the day.

The Directors of the Company unanimously recommend that shareholders vote in favour of the resolution.

Yours sincerely



John Diddams
Chairman
xReality Group Limited

5 reasons why you should vote in favour of the Transaction

- 1** The issue of New Shares is at the Subscription Price of \$0.05, representing a 39% premium to the closing price on 4 March 2025
- 2** The issue of New Shares will satisfy the Company's obligations under the Loan Facility significantly decreasing the Company's debt to equity ratio
- 3** The Transaction will reduce the Company's debt from approximately \$9.1 million to approximately \$4.5 million , which would result in a more favourable capital structure for future undertakings
- 4** Birkdale is a long-term and major Shareholder who has supported the Company in numerous capital raisings to date and is in a position to add value to the Company's strategic objectives
- 5** The Independent Expert has concluded that the advantages of the Transaction outweigh the disadvantages for the non-associated Shareholders

Reasons why Shareholders might vote against the Transaction

- 1** The issue of New Shares will increase Birkdale's voting power to 28.97%, giving it the ability to unilaterally block approval of any special resolution and the approval of a takeover conducted by a scheme of arrangement
- 2** The Independent Expert has indicated that the Transaction is not fair. Consistent with regulatory guidance, the Independent Expert does not consider the control premium is adequate, due to a sliding scale which has a negative impact on the premium required due to the small nature of the transaction. The Independent Expert has however determined the transaction is reasonable, due to the advantages outweighing the disadvantages of the transaction. These are detailed in section 2.3 of the Independent Expert's report.

1. Summary of the Transaction

1.1. Introduction

The Company and Birkdale have entered into a Debt Repayment and Subscription Agreement, pursuant to which the Current Debt will be appropriated to subscribe for 92,565,249 Shares of new fully paid ordinary shares (**New Shares**) with a subscription price of \$0.05 (**Subscription Price**). The Subscription Price is at a 39% premium to the closing price on 4 March 2025¹. The Current Debt will be applied as subscription monies for the New Shares

The proposal to convert the Current Debt to New Shares is referred to as the “**Transaction**”.

At 30 April 2025, the balance of the Loan Facility including capitalised interest and expenses is estimated to be \$4,628,262 (**Current Debt**).

Key details of the Debt Repayment and Subscription Agreement are set out in Section 6 of this Booklet.

The Transaction is conditional on approval by Shareholders for the purposes of Section 611 Item 7 of the Corporations Act.

This Booklet includes a notice of meeting and other information necessary to enable Shareholders to make an informed decision whether or not to approve the Transaction.

1.2. Shareholder approvals

The Transaction will only proceed if the resolution is approved by Shareholders at the General Meeting (**Resolution**) under Section 611 Item 7 of the Corporations Act.

The Resolution requires approval by a simple majority, being more than 50% of votes cast by eligible Shareholders at the General Meeting. None of Birkdale and its Associates may vote on the Resolution.

For a full explanation of the nature, purpose and effect of the Resolution and the voting restrictions applying to them, please refer to the Notice of Meeting contained in Appendix 1 of this Booklet.

1.3. Director recommendations

The Directors consider that the Transaction is in the best interests of Shareholders and recommend that non-associated Shareholders vote in favour of the Resolution.

No Director has a personal material interest in the outcome of the Resolution.

1.4. Independent Expert's Report

The Company appointed the Independent Expert to opine on whether the Transaction is in the best interests of Shareholders.

The Independent Expert considers that the Transaction is not fair but reasonable.

The Independent Expert has concluded that the advantages of the Transaction outweigh the disadvantages for the non-associated Shareholders.

Full details of the Independent Expert's reasons and views are set out in the Independent Expert's Report attached as Annexure A of this Booklet.

The Independent Expert concluded that despite not being fair, but considering other significant factors, it is reasonable, and shareholders should accept the offer in the absence of any higher bid before the close of the offer.

¹ Being the trading day prior to announcement of the Transaction.

1.5. Implementation and timetable

If Shareholders approve the Resolution, it is expected that the Transaction will be fully implemented by Friday, 2 May 2025.

On completion of the Transaction, the New Shares will be issued to Birkdale. As a result, the voting power of Birkdale in the Company will increase from 17.45% to 28.97%.² The New Shares will be issued for nil cash consideration, in satisfaction of the Current Debt. Birkdale is not required to pay cash for the New Shares.

1.6. What to do next

(a) Read the remainder of this Booklet

Shareholders should read this Booklet (including the Notice of Meeting) carefully before deciding how to vote on the Resolution.

(b) Consider your options

Shareholders should refer to Section 2 of this Booklet for further guidance on the expected advantages and possible disadvantages of the Transaction. However, this Booklet does not take into account the financial situation, investments objectives and particular needs of any particular Shareholder.

(c) Vote at the General Meeting

The Board urges all Shareholders to vote on the Transaction at the General Meeting. The Transaction affects your investment in the Company and your vote at the General Meeting is important in determining whether the Transaction proceeds.

1.7. Summary of how to vote

(a) General

The General Meeting will be held at the offices of Accru Felsers Level 9, 1 Chifley Square, Sydney **on Wednesday, 30 April 2025**, commencing at 2:00 pm (Sydney time).

The notice convening the General Meeting is contained in Appendix 1 to this Booklet. Your vote at the General Meeting is important. If you are registered as a Shareholder by the Registry at the voting entitlement time (2:00 pm Sydney time on Monday, 28 April 2025), you will be entitled to vote at the General Meeting, subject to the voting restrictions and exclusions set out in the Notice of Meeting in Appendix 1 to this Booklet. These voting restrictions and exclusions are summarised in the Notice of Meeting contained in Appendix 1 of this Booklet.

(b) Voting in person

If you wish to attend the General Meeting in person, please register your attendance by email to info@xrgroup.com.au by 5:00 pm (Sydney time) on Sunday, 27 April 2025.

Voting on the Resolution at this General Meeting will be conducted by poll.

(c) Voting by proxy

A Proxy Form is attached to the Notice of Meeting. This is to be used by Shareholders if they wish to appoint a representative (a 'proxy') to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the

² Assuming no options are exercised and no other Shares are issued in the interim.

Company in accordance with the instructions thereon. Returning the Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

Please note that:

- (i) a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy;
- (ii) a proxy need not be a member of the Company; and
- (iii) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. Where the proportion or number is not specified, each proxy may exercise half of the votes.

Proxy Forms must be received by the Company no later than 2:00 pm (Sydney time) on Monday, 28 April 2025, being at least 48 hours before the Meeting.

The Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

(d) Further information

Please refer to the Notice of Meeting in Appendix 1 to this Booklet for further information on voting procedures and details of the Resolution to be voted on at the General Meeting.

2. Relevant considerations for Shareholders

2.1. Introduction

The purpose of this Section 2 is to identify significant issues for Shareholders to consider in relation to the Transaction.

Before deciding how to vote at the General Meeting, Shareholders should carefully consider the factors discussed below, as well as the other information contained in this Booklet.

2.2. Section 606 of the Corporations Act

Under Section 606(1) of the Corporations Act a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction the person's or someone else's voting power in the company increases from 20% or below to more than 20%.

Pursuant to Section 606(1A) of the Corporations Act the person may acquire the relevant interest under one of the exceptions in Section 611 of the Corporations Act.

2.3. Relevant Interest in Securities

Under Section 608(1) of the Corporations Act a person has a relevant interest in securities if they:

- (a) are holders of the securities; or
- (b) have power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

Further, under Section 608(3) of the Corporations Act, a person has a relevant interest in any securities that has a body corporate, in which the person's voting power is above 20%.

2.4. Associates

For the purposes of determining voting power under Section 610 of the Corporations Act, a person (**second person**) is an associate of the primary person if one or more of the following paragraphs applies:

- (a) the primary person is a body corporate and the second person is:
 - (i) a body corporate the primary person controls; or
 - (ii) a body corporate that controls the primary person; or
 - (iii) a body corporate that is controlled by an entity that controls the primary person;
- (b) the second person is a person with whom the primary person has, or proposes to enter into, a relevant agreement for the purpose of controlling or influencing the composition of the designated body's board or the conduct of the designated body's affairs; or
- (c) the second person is a person with whom the primary person has, or proposes to enter into, a relevant agreement for the purpose of controlling or influencing the composition of the designated body's board or the conduct of the designated body's affairs.

Except as disclosed in this Booklet, no Associates of Birkdale currently have or will have a relevant interest in the Company, nor is there any intention to issue Shares to any Associate of Birkdale.

2.5. Section 611 Approval

Section 611 Item 7 of the Corporations Act contains an exception to Section 606 of the Corporations Act. It provides that person may acquire a relevant interest in a company's voting shares provided Shareholders approve the acquisition (**Shareholder Approval**). Certain requirements apply to Shareholder Approval.

Birkdale currently has a relevant interest in 99,638,163 Shares, representing a voting power in the Company of 17.45%. If Shareholders approve the issue of New Shares, Birkdale's relevant interest will increase to 192,203,412 Shares.³

2.6. ASX Listing Rule 7.1

Listing Rule 7.1 prohibits listed companies from conducting security issues exceeding 15% of the company's capital in a 12 month period without obtaining shareholder approval. In accordance with Listing Rule 7.2 (Exception 8), Listing Rule 7.1 does not apply to an issue of securities approved for the purposes of Section 611 Item 7 of the Corporations Act. Therefore, if approved by Shareholders, the issue of New Shares, the issuance does not reduce the Company's Listing Rule headroom capacity.

2.7. Chapter 2E of the Corporations Act

For a public company, to give a financial benefit to a related party of the public company, the giving of the benefit must fall within an exception set out in Sections 210 to 216 of the Corporations Act, or the public company must:

- (a) obtain the approval of the public company's members in the way set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months after the approval.

Despite the fact that:

- (a) Birkdale is the Company's largest Shareholder; and
- (b) Mr Stephen Baxter is currently a director of Birkdale and was a director of the Company until 24 January 2022,

Birkdale is not a related party of the Company for the purposes of Chapter 2E of the Corporations Act.

In any event, the Directors consider the proposed issue of New Shares is on arm's length terms because the issue of New Shares is at the Subscription Price, representing a 39% premium to the closing price on 4 March 2025.

2.8. ASX Listing Rule 10.11 and Information required by ASX Listing Rule 10.13

Listing Rule 10.11 provides that unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not issue or agree to issue equity securities to:

- (a) a related party;
- (b) a person who is, or was at any time in the 6 months before the issue or agreement a substantial (30%+) holder in the entity,
- (c) a person who is, or was at any time in the 6 months before the issue or agreement a substantial (10%+) holder in the entity and who has nominated a director to the board of the entity pursuant to a relevant agreement which gives them a right or expectation to do so;

³ Assuming no options are exercised and no other Shares are issued in the interim.

- (d) an associate of a person referred to in paragraphs (a) to (c); or
- (e) a person whose relationship with the entity or a person referred to in paragraphs (a) to (d) is such that, in ASX's opinion, the issue of issue or agreement should be approved by security holders,

unless it obtains shareholder approval.

The Transaction meets the requirements of Listing Rule 10.12 (Exception 6), which provides that an issue of securities that is approved for the purposes of Item 7 of Section 611 of the Corporations Act is an exception to the requirements under Listing Rule 10.11.

Accordingly, the Transaction does not require the approval of Shareholders under Listing Rule 10.11.

2.9. Information required by ASX Listing Rule 14.1A

If Shareholders approve the Resolution, the Company will be able to issue the New Shares on the same terms as the Shares currently on issue.

If Shareholders do not approve the Transaction the Company will not issue the New Shares and the Company will be required to comply with the terms of the Loan Facility.

2.10. Why you should vote in favour of the Resolution

In addition to the Independent Expert's Report attached to this Booklet as Annexure A, the Directors consider the following advantages of the Transaction are relevant to a Shareholder's decision on how to vote on the Resolution:

- (a) the Independent Expert has concluded that the advantages of the Transaction outweigh its disadvantages for the non-associated Shareholders;
- (b) the issue of New Shares is at the Subscription Price, representing a 39% premium to the closing price on 4 March 2025;
- (c) the issue of New Shares will satisfy the Company's obligations under the Loan Facility. Practically this will position the Company to further develop and expand Operator XR;
- (d) the Transaction will reduce the Company's debt by 51%, from approximately \$9,100,000 to \$4,500,000, which would result in a more favourable capital structure for future undertakings; and
- (e) Birkdale is a long-term and major Shareholder who has supported the Company in numerous capital raisings to date.

2.11. Why you may vote against the Transaction

The Directors consider the following disadvantages of the Transaction are relevant to a Shareholder's decision on how to vote on the Resolution:

- (a) the issue of New Shares will increase Birkdale's voting power from 17.45% to 28.97%, reducing the voting power of non-associate Shareholders to 71.03%.⁴
- (b) The increase in Birkdale's voting power gives it the ability to unilaterally block approval of any special resolution and the approval of a takeover conducted by a scheme of arrangement and practically, may also give Birkdale the ability to block approval of ordinary resolutions (depending on voter turnout);

⁴ Assuming no options are exercised and no other Shares are issued in the interim.

- (c) The Independent Expert has indicated that the Transaction is not fair. Consistent with ASIC guidance, the Independent Expert does not consider the control premium is adequate. The Independent Expert has however determined the transaction is reasonable.

2.12. Risks of Transaction

While the Company considers the benefits for Shareholders outweigh the risks, there are a number of risks to Shareholders associated with the Transaction. See Section 3 for full details.

2.13. Impact on the Company's financial position

Implementation of the Transaction will reduce the Company's debt by approximately \$4.6M (or 51% of total debt). This will strengthen the Company's balance sheet and reduce the ongoing interest expense associated with the Loan Facility to zero.

2.14. Impact on control of the Company

Section 5.2 of this Booklet sets out the impact the on control of the Company as a result of the Transaction.

3. Risk Factors

3.1. Overview

The Directors strongly recommend that Shareholders consider the risk factors set out in this Section 3, together with all other information contained within the Booklet.

The future performance of the Company may be influenced by a range of factors, many of which are largely beyond the control of the Company and the Directors. The key risks associated with the Company's business, the industry in which it operates and general risks applicable to all investments in listed securities and financial markets generally are described below.

The risks factors set out in this Section 3, or other risk factors not specifically referred to, may have a materially adverse impact on the performance of the Company and the value of the New Shares. This Section 3 is not intended to provide an exhaustive list of the risk factors to which the Company is exposed.

Before determining how to vote on the Resolution to be considered at the General Meeting you should ensure that you have a sufficient understanding of the risks described in this Section 3, and all of the other information set out in this Booklet.

If you do not understand any matters contained in this Booklet or have any queries about whether to invest in the Company, you should consult your accountant, financial adviser, stockbroker, lawyer or other professional advisor.

3.2. Company Specific Risks

(a) Dilution

Following completion of the Transaction, the number of Shares in the Company will increase from 570,982,276 currently on issue to 663,547,525⁵. This means that immediately after the Transaction each Share will represent a lower proportion of the ownership of the Company. It is not possible to predict what the value of the Company or a Share will be following the completion of the Transaction and the Directors do not make any representation as to such matters. The last trading price of Shares on ASX on 4 March 2025 of \$0.036⁶ is not a reliable indicator as to the potential trading price of Shares following completion of the Transaction.

(b) Growth Strategy

Achievement of the Company's objectives is largely dependent on its ability to successfully execute its growth strategy. There can be no assurance that the Company's growth strategy will be successfully implemented, deliver the expected returns or ultimately be profitable. The ability to properly implement and manage the strategic direction of the Company and its growth strategy may affect the Company's operating and financial performance.

The Company has announced its intention to focus on Operator XR and examine corporate options relating to its legacy entertainment business. This process is uncertain. Accordingly, no representation is made as the likely direction or outcome of the process currently in its early stages.

Transforming the Company from its current asset mix to a business that is focussed on the Operator XR business involves financial and operational risks. Should this transformation be successful it will likely impact the mix of earnings the Company expects to generate in the future. There will be a greater proportion of future performance being derived from the Operator XR business. Shareholders should be aware that Operator XR's profitability depends on a number of factors, including but not limited to:

⁵ Assuming no options are exercised and no further Shares are issued.

⁶ Being the day immediately prior to the date the Transaction was announced.

- Operating net cashflow
- New Operator XR customer acquisition
- Sales strategy effectiveness and pipeline conversion
- Annual Recurring Revenue conversion (including existing customer contract upsell, extension and renewal or customer 'churn'), and
- New Total Contract Value won
- Control of costs and organisational cashflow management
- Alignment of cashflow management and lending facilities to the cash generation profile of the Operator XR business
- Effective management, delivery and adoption of milestone-based Operator XR projects and related IP, such as the recent Department of Defense contract (announced September 2024)

The Company expects that management of its risk environment during transformational change will require appropriate resourcing. The Board has appointed corporate advisers and may elect to make appropriate changes to current resourcing to manage operational and financial risk during the transformation process.

3.3. Industry Specific Risks

- Competition** – There is always a risk that the Company may experience increased competition from existing competitors and new entrants to the market. Competition may also result from mergers and acquisitions activity within the industry or advancements in technology and product innovation. If these risks materialise, this will have an adverse impact on the Company's financial performance and competitive position.
- New technologies** – The Company may be required to implement technological advancements to maintain its competitive edge in the market. The Company may encounter difficulties in incorporating advancements to its offerings due to factors outside of its control. The inability of the Company to implement new technologies may have an adverse impact on the Company's financial performance and growth.
- Information technology** – The Company depends on information technology systems and platforms to operate its business. A disruption to supply of components of hardware, or failure of, one or more of these internal or third-party systems may have an adverse effect on the Company's financial performance and growth prospects.
- Intellectual property** – The Company cannot be certain that the actions it takes to protect its intellectual property rights will be adequate or that third parties will not infringe or misappropriate the Company's intellectual property. There is a risk that the actions taken by the Company will not be sufficient to protect its intellectual property rights or that existing protection measures implemented by the Company cannot be maintained or are inadequate. If the Company fails to protect and retain its intellectual property rights, it could have an adverse effect on the Company's operating and financial performance and reputation.
- Infringement of third-party intellectual property rights** – There is a risk that third parties might raise concerns that the Company has inadvertently infringed on their intellectual property rights without their consent or permission. Any claims, even if unsubstantiated, could potentially lead to disagreements or legal proceedings that may be prolonged and costly. Although the Company has taken actions to avoid this eventuating, including, engagement of intellectual property and patent professionals, insurance policies with experienced underwriters and multiple other research and mitigation methods, should the Company be regarded as infringing intellectual property rights of third parties, it could have an adverse effect on the Company's operations and financial performance and its reputation.

- (f) **Reliance on key personnel** – The responsibility of overseeing the day-to-day operations and strategic management of the Company depends substantially on key personnel. The loss or departure of one or more key personnel, and/or the inability to hire new employees to underpin the Company's growth, may have a material adverse effect on the Company's performance and growth.
- (g) **Government and legal risk** – Adverse changes in government policies or legislation may affect the activities of the Company.
- (h) **Compliance with and changes to legislation and regulation** – If the Company does not or cannot comply with the necessary laws and regulations it may be exposed to fines, penalties or loss of requisite licenses or authorisations, which may alone or in combination have a material adverse effect on the Company's ability to operate. These factors, as a consequence may have a material adverse effect on the Company's financial performance and future prospects.

3.4. General risks

- (a) **Trading and liquidity in Shares** – The price of Shares may rise or fall depending on a range of factors beyond the Company's control and which are unrelated to the Company's performance. There is no guarantee or assurance that an active market for Shares will exist or that the price of Shares will increase. There may be relatively few potential buyers or sellers of Shares on ASX at any given time which will impact upon Share liquidity. This may increase the volatility of the market price of Shares and may also impact on the ability of Shareholders to be able to sell their Shares at a price that is more or less than that paid by the Shareholder.
- (b) **General economic conditions and external factors** – The Company's financial performance and Share price may be materially adversely affected by a number of general risk factors including but not limited to changes in the Australian and international economic outlook, Federal or State Government fiscal, monetary or regulatory policies (such as increases in interest rates) and inflation and exchange rates. The general economic climate may affect the performance of the Company. These factors include the general level of international and domestic economic activity, inflation and interest rates. These factors are beyond the control of the Company and their impact cannot be predicted.
- (c) **Taxation** – There are tax implications arising from buying and selling Shares. Investors should seek their own independent taxation advice before applying for Shares.

3.5. Investment speculative

The risk factors described above, and other risks factors not specifically referred to, may have a materially adverse impact on the performance of the Company.

4. XRG

4.1. Overview of the Company

The Company is a market leader in immersive XR solutions, delivering VR and AR experiences. With a focus on training, simulation, and entertainment, the Company is transforming its business to focus on Operator XR, an advanced XR training platform designed for defence and law enforcement agencies worldwide.

Over the past 24 months, Operator XR has expanded across Australia and to parts of North America, in order to secure its position as a global leader in XR-based training. With underlying IP developed in-house Operator XR currently provides unparalleled realism in mission-critical training environment.

The Company intends to focus on the growth opportunity with the Operator XR higher-margin business model while evaluating corporate options relating to its legacy entertainment assets. The Company considers the approach to be consistent with its strategy to maximise Shareholder value. The Board considers this strategic shift allows the Company to streamline operations and focus on scaling Operator XR through continued product innovation and its sales expansion into the US.

Through integration of AI-driven personalisation and real-time scenario adaptation, Operator XR will continue to seek to maintain its competitive advantage, enhanced capability uplift, training effectiveness and customer ROI on training investments through reducing time and costs for customer agencies. The Company's continued investment and integration of AI in this product suite ensures it remains at the forefront of XR training, reinforcing its competitive edge and industry leadership in mission-critical simulation solutions.

4.2. Directors

As at the date of this Booklet, there are 6 directors of the Company, being:

- John Diddams (Non-executive/Chairman);
- Wayne Jones (Executive);
- Phillip Copeland (Non-executive);
- Mark Smethurst (Non-executive);
- Kim Hopwood (Executive); and
- Danny Hogan (Non-executive).

4.3. Major shareholders

As at the date of this Booklet, substantial shareholder notices received by the Company and released to the market through ASX disclose the following substantial shareholders:

Table 1 – Major Shareholders

Name	Number of Shares	Percentage of Capital Issued
Birkdale Holdings (Qld) Pty Ltd	99,638,163	17.45%

Mr Wayne Jones	52,860,410	9.26%
Mr Kim Hopwood	36,247,039	6.35%

4.4. Overview of the Company's historical financial performance

A summary of the historical consolidated financial performance of the Company and its Controlled Entities since 1 July 2023 is set out below¹:

Table 2 – Historical Financial Performance

A\$	6 months to 31 December 2024	12 months to 30 June 2024
Revenue	7,424,567	10,238,587
Operating expenses	(6,538,860)	(10,501,370)
Non-operating expenses	(1,878,045)	(3,848,957)
Operating profit after tax attributed to members of the parent entity	(992,338)	(4,111,740)

Notes:

- The above information has been drawn from the audited financial statements for the Company and its Controlled Entities and associated disclosure included in its annual reports for the years ended 30 June 2024 and 2023.
- Revenue includes revenue from ordinary activities and other income.
- Operating expenses are all expenses other than interest, depreciation and taxation.
- Non-operating expenses are interest, depreciation and taxation.

XRG Statement of Financial Position

The audited consolidated statement of financial position of the Company as at 30 June 2023, 30 June 2024 is set out below.¹

\$	31-Dec-24	30-Jun-24
CURRENT ASSETS		
Cash and cash equivalents	1,687,004	1,365,512
Receivables	1,010,652	2,704,371
Other	1,265,672	324,497
TOTAL CURRENT ASSETS	3,963,329	4,394,380
NON CURRENT ASSETS		
Property, plant and equipment	18,654,503	19,266,005
Intangibles	5,942,852	5,119,178
Right-of-use asset	12,541,144	12,823,217
Other	1,472,451	1,054,872
TOTAL NON CURRENT ASSETS	38,610,950	38,263,272
TOTAL ASSETS	42,574,279	42,657,652
CURRENT LIABILITIES		
Payables	2,125,918	2,307,313
Lease liability	808,034	814,649
Deferred revenue	3,580,199	2,525,045
Borrowings	4,614,564	314,564
Provisions	608,791	527,049
TOTAL CURRENT LIABILITIES	11,737,507	6,488,620
NON CURRENT LIABILITIES		
Payables	-	986,580
Lease liability	14,076,043	14,145,319
Deferred revenue	2,185,328	1,959,558
Borrowings	4,557,492	8,347,626
Provisions	1,082,622	1,298,209
TOTAL NON CURRENT LIABILITIES	21,901,486	26,737,292
TOTAL LIABILITIES	33,638,992	33,225,912
NET ASSETS	8,935,286	9,431,740
EQUITY		
Issued capital	49,186,961	48,887,773
Reserves	793,907	545,182

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Accumulated losses	(41,045,582)	(40,001,215)
TOTAL EQUITY	8,935,286	9,431,740

Notes:

1. The above information has been drawn from the audited financial statements for the Company and its Controlled Entities and associated disclosure included in its annual reports for the years ended 2023 and 2024.

4.5. Commentary on the Company's financial results

The Group achieved a total revenue for the period half-year period of \$7.4m. The increase was mainly due to the growth in Operator XR, with recognised revenue totaling \$2.1m. The income also includes the annual Research and Development Grant of \$1.125m and an inventory adjustment of \$313k. XRG had its strongest half-year result to date, with Total Revenue exceeding \$7.4m (up 32% on previous corresponding period) and Net Loss after Tax (NLAT) improving to \$1.0m (loss) from an NLAT of \$1.5m (loss) in previous corresponding period.

The reported EBITDA for the period was \$0.9m, increasing by 96% on previous corresponding period. Expenses across the Entertainment facilities remains stable, Operator XR increased its sales, customer service and operations personnel in the US during the period, with further investment in marketing activities.

4.6. 2025 financial outlook

The Company expects stable performance from its legacy business, driving growth through the Core Operator XR business, while continuing to develop a strong pipeline of opportunities.

iFLY operations continue to contribute meaningfully to both revenue and cash flow. At the same time, XRG is actively reviewing its strategic options for the legacy entertainment business as it shifts focus toward expanding its Core Operator XR business.

Ash Crick, a globally recognised AI expert, has joined XRG as Chief AI Advisor. He will lead innovation across the company's product suite, including Operator XR's immersive training simulations.

The company remains committed to strengthening customer service, supply chain resilience and expanding its sales teams to support growth. With positive operating cash flow and strong early momentum in the US market, the Company is well-positioned to capitalise on new opportunities.

4.7. Trading in Shares

In the 12 months to 21 March 2025, Shares have traded at a high of **\$0.067** (on 28 June 2024) and a low of \$0.028 (on 1 May 2024). The volume weighted average price at which Shares have traded in this period was \$0.04.

In the 3 months to 21 March 2025, Shares have traded at a high of \$0.046 (on 21 January 2025) and a low of \$0.030 (on 30 December 2024). The volume weighted average price at which Shares have traded in this period was \$0.036.

4.8. XRG is a disclosing entity

As a company listed on the ASX and a "disclosing entity" under the Corporations Act, the Company is subject to regular reporting and disclosure obligations which require it to announce price sensitive information as soon as it becomes aware of that information. the Company's most recent announcements are available from its website.

Further announcements concerning the Company will continue to be made available on the website after the date of this Booklet.

ASX maintains files containing publicly available information about entities listed on their exchange. The Company's files are available for inspection from ASX during normal business hours and are available on the website at www.asx.com.au.

The Company is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by the Company may be obtained, or inspected at, ASIC offices.

The annual and interim reports and public announcements are also available at the Company's website at www.xrgroup.com.au.

5. Specific Information required by Section 611 of the Corporations Act and RG 74

The Company is required to provide the following information to Shareholders in accordance with the Corporations Act and ASIC Regulatory Guide 74 relating to shareholder approval for a resolution under Section 611 Item 7 of the Corporations Act.

5.1. Identity of the Acquirer

Birkdale is an Australian proprietary limited company registered in Queensland on 27 June 2006. Birkdale is controlled by Mr Stephen Baxter. Mr Stephen Baxter was a director of the Company until 24 January 2022

Birkdale is the largest Shareholder with a relevant interest of 99,638,163 Shares, representing a voting power in the Company of 17.45%.

Except as disclosed in this Booklet, no Associates of Birkdale currently have or will have a relevant interest in the Company, and there is not intention to issue Shares to any associate of Birkdale.

5.2. Relevant Interest and Voting Power

If the Transaction is approved by Shareholders and the New Shares are issued, Birkdale's relevant interest will increase to 192,203,412 Shares, which would represent a voting power in the Company of 28.97%.

The Company will issue the New Shares to Birkdale on the following basis:

- (a) Current Debt will be applied as subscription monies for the New Shares. No additional cash is payable by Birkdale for the New Shares; and
- (b) the Subscription Price is \$0.05, which represent a 39% premium to the closing price on 4 March 2025.

Table 3 details the effect Shareholder Approval of the issue of New Shares will have on the voting power of the existing Shareholders

Table 3 – Issue of New Shares⁷

	All Shareholders	Non-associated Shareholders	Birkdale
Shareholding as at 30 April 2025	570,982,276	471,344,113	99,638,163
Relevant Interest as at 30 April 2025	570,982,276	471,344,113	99,638,163
Voting Power as at 30 April 2025	100%	82.55%	17.45%
New Shares proposed to be issued	92,565,249	0	92,565,249

⁷ Assuming no options are exercised and no further Shares are issued.

Total Shareholding after the Issue Date	663,547,525	471,344,113	192,203,412
Relevant Interest after the Issue Date	663,547,525	471,344,113	192,203,412
Voting Power after the Issue Date	100%	71.03%	28.97%

Table 3 indicates that if the issue of New Shares is approved, Birkdale's relevant interest will increase to a maximum of 192,203,412 Shares, which would represent a voting power in the Company of 28.97%. This would result in the combined relevant interests of all non-associated Shareholders decreasing from 82.55% to 71.03%.

The issue of New Shares would represent an 11.52% increase in Birkdale's voting power.

5.3. Reasons for the Proposed Issue of New Shares

- (a) The purpose of the Transaction is to satisfy the Company's obligations under the Loan Facility, resulting in a reduction of the Company's debt from approximately \$9,100,000 to \$4,500,000 . This will allow the Company to:
 - (i) position Operator XR (a wholly owned subsidiary of the Company) to meet the demand of larger orders expected in the near term; and
 - (ii) allocate further resources to developing and expanding Operator XR.

5.4. Date of the Proposed Issue of New Shares

The New Shares will be issued on Thursday, 1 May 2025 (**Issue Date**).

5.5. Terms of the New Shares

The New Shares are issued on the same terms as the Shares currently on issue. An application will be made for quotation of the New Shares following issue, as required by the Listing Rules.

5.6. Details of the Debt Repayment and Subscription Agreement

Key details of the Debt Repayment and Subscription Agreement are set out below at Section 6 of this Booklet.

5.7. Birkdale's Intentions

Birkdale has informed the Company that at the date of the Notice of Meeting, it has no present intention:

- (a) to change the business of the Company;
- (b) to inject further capital into the Company;
- (c) regarding the future employment of present employees of the Company;
- (d) to otherwise redeploy the fixed assets of the Company; and
- (e) to significantly change the financial or dividend distribution policies of the Company.

Birkdale has informed the Company its only intention with respect to the Transaction is to receive the New Shares in satisfaction of the Current Debt.

5.8. Interests and Recommendations of Directors

No Director has a personal material interest in the outcome of the Resolution.

The Directors unanimously recommend that Shareholders vote in favour of the Resolution and each Director intends to vote in favour of the Resolution.

6. Summary of Debt Repayment and Subscription Agreement

6.1. Introduction

The Company and Birkdale entered into a Debt Repayment and Subscription Agreement on 5 March 2025.

The Company and Birkdale agreed that:

- the Company will issue, and Birkdale will subscribe for, the New Shares in the Company; and
- the Current Debt owing to Birkdale will be applied in payment for the New Shares on the terms of the Debt Repayment and Subscription Agreement.

6.2. Conditions precedent

Completion of the Debt Repayment and Subscription Agreement (**Completion**) is conditional on and will not proceed unless the Company obtains Shareholder Approval.

6.3. Birkdale Obligations

On or before the date of Completion, Birkdale must deliver to the Company all evidence reasonably required by the Company to confirm that Birkdale can be issued the New Shares without a Disclosure Document (in reliance on section 708A(11) of the Corporations Act).

6.4. Company Obligations

Subject to Birkdale performing its obligations under the Debt Repayment and Subscription Agreement, the Company must:

- (a) allot and issue the New Shares to Birkdale;
- (b) register Birkdale as the holder of the New Shares and instruct the Registry to deliver to Birkdale a holding statement in respect of the New Shares;
- (c) lodge with ASX in accordance with the Corporations Act and all applicable laws and regulations, a Cleansing Statement; and
- (d) release an Appendix 2A, applying for quotation of the New Shares.

6.5. Completion

Completion will occur on the date that is 2 Business Days after the date of Shareholder Approval.

6.6. Relevant Laws

Birkdale confirms that as at the date of the Debt Repayment and Subscription Agreement and at Completion:

- (a) it is not trading with and does not otherwise possess “inside information” with respect to the Company for the purposes of the Corporations Act; and
- (b) the performance of obligations under the Debt Repayment and Subscription Agreement by Birkdale does not breach the insider trading laws in the Corporations Act.

6.7. Warranties

The agreement includes warranties by the Company for the benefit of Birkdale that are customary for a transaction of this nature including title and authority, shares and compliance with law and compliance with disclosure requirements by the Company.

7. Glossary

The following terms used in this Booklet (including the Notice of Meeting in Appendix 1 to this Booklet) have the meanings given to them below, unless the context otherwise requires.

AI	Artificial Intelligence
AR	Augmented Reality
ASIC	Australian Securities & Investment Commission
Associate	has the meaning given in sections 12 and 15 of the Corporations Act
ASX	ASX Limited (ACN 008 624 691) or, as the context requires, the financial market conduct by it
Birkdale	Birkdale Holdings (Qld) Pty Ltd (ACN 120 407 981) as trustee for the Baxter Family Trust
Board	the board of Directors
Booklet	this shareholder booklet dated 31 March 2025 in relation to the Transaction
Chairman	the person appointed to chair the Meeting convened by the Notice of Meeting
Company	xReality Group Ltd (ABN 39 154 103 607).
Controlled Entity	an entity under the control of another entity
Corporations Act	<i>Corporations Act, 2001 (Cth)</i>
Current Debt	has the meaning given to it in section 1.1 of this Booklet
Debt Repayment and Subscription Agreement	the debt repayment and subscription agreement entered into by the Company and Birkdale dated 5 March 2025.
Director	a director of the Company
XR	Extended Reality
General Meeting	the meeting of members to be convened in respect of the Transaction on 30 April 2025. The notice convening the General Meeting is contained in Appendix 1 of this Booklet
Independent Expert	Titan Partners Corporate Finance Pty Ltd
Independent Expert's Report	the independent expert's report prepared by Titan Partners Pty Ltd and attached to this Booklet as Annexure A
Issue Date	has the meaning given to it in Section 5.4 of this Booklet
Listing Rules	the listing rules of ASX
Loan Facility	means the loan agreement between the Company and the Subscriber dated 19 June 2018 (and includes any amendments to and/or restatements of that agreement), including, for the avoidance of doubt the loan agreement extension dated 29 September 2020 and the amended and restatement loan agreement dated 16 November 2023.
New Shares	has the meaning given to it in section 1.1 of this Booklet
Notice of Meeting	the notice for the General Meeting dated 31 March 2025, as set out in Appendix 1 of this Booklet

Proxy Form	the proxy form attached to the Notice of Meeting
Registry	Boardroom Pty Limited
relevant interest	has the meaning given in section 9 of the Corporations Act
Resolution	the resolution set out in the Notice of Meeting
Shareholder	a registered holder of Shares
Shareholder Approval	has the meaning given to it in Section 2.5 of this Booklet.
Shares	ordinary shares in the capital of the Company
Subscription Price	has the meaning given to it in section 1.1 of this Booklet
Transaction	has the meaning given to it in section 1.1 of this Booklet
voting power	Has the meaning given in section 610 of the Corporations Act
VR	Virtual Reality

APPENDIX 1: NOTICE OF MEETING



XREALITY GROUP LTD ABN 39 154 103 607

**NOTICE OF EXTRAORDINARY GENERAL
MEETING**

**The Extraordinary General Meeting of the Company will be held at
the offices of Accru Felsers, Level 9, 1 Chifley Square, Sydney
on 30 April 2025 at 2:00 pm (Sydney time).**

This Notice should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Shareholders are urged to attend or vote by lodging the proxy form attached to this Notice.

If you wish to attend the Meeting in person, please register your attendance by email to info@xrgroup.com.au by 5:00 pm (Sydney time) on Sunday, 27 April 2025.

XREALITY GROUP LTD ABN 39 154 103 607**NOTICE OF EXTRAORDINARY GENERAL MEETING**

Notice is hereby given that the Extraordinary General Meeting of shareholders of xReality Group Ltd ABN 39 154 103 607 ("**Company**") will be held at Accru Felsers, Level 9, 1 Chifley Square, Sydney , on 30 April 2025 at 2:00 pm (Sydney time) ("**General Meeting**").

The Booklet provides additional information on matters to be considered at the General Meeting. The Booklet and the Proxy Form form part of this Notice of Meeting.

The Directors have determined pursuant to regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)* that the persons eligible to vote at the General Meeting are those who are registered as Shareholders at 2:00 pm (Sydney time) on Monday, 28 April 2025.

AGENDA**1 PROPOSED ISSUE OF SHARES TO BIRKDALE AS REPAYMENT AMOUNTS OWING UNDER THE BIRKDALE LOAN FACILITY**

To consider and, if thought fit, to pass the following resolution:

"That, for the purposes of Section 611 Item 7 of the Corporations Act, the ASX Listing Rules and for all other purposes, approval is given by the Shareholders for the Company to issue 92,565,249 to Birkdale Holdings (Qld) Pty Ltd (ACN 120 407 981) as trustee for the Baxter Family Trust on the terms and conditions set out in the Explanatory Statement".

Note: This Resolution is subject to voting exclusions as set out at the end of this Notice of Meeting.

2 VOTING EXCLUSION FOR PROPOSED ISSUE OF SHARES TO BIRKDALE AS REPAYMENT AMOUNTS OWING UNDER THE BIRKDALE LOAN FACILITY

A vote on this Resolution must not be cast by Birkdale Holdings (Qld) Pty Ltd and any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder of ordinary securities in the Company) or an associate of that person or those persons.

However, this does not apply to a vote cast in favour of the Resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with directions given to the proxy or attorney to vote on the Resolution in that way; or
- the chair as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with a direction given to the chair to vote on the Resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on the Resolution; and

- the holder votes on the Resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

MEETING PROTOCOL

1 DISCUSSIONS AND ASKING QUESTIONS

Discussion will take place on the business of the General Meeting as set out above.

The Booklet provides further information relating to the items of business of the General Meeting. Shareholders will have the opportunity to ask questions at the General Meeting.

To ensure that as many Shareholders as possible have the opportunity to speak, Shareholders are requested to observe the following guidelines:

- (a) Please keep questions as brief as possible and relevant to the matters being discussed.
- (b) If a Shareholder has more than one question, please ask all questions at the same time.

Shareholders who are unable to attend the General Meeting or who may prefer to register questions in advance are invited to do so. Please email your question to info@xrgroup.com.au. An opportunity for discussion will be provided on each item of business prior to Shareholders being asked to vote.

2 VOTING

2.1 Voting at the Meeting

Voting on the Resolution at the General Meeting will be conducted by poll.

2.2 Voting by Proxy

Instructions for voting by proxy are detailed in the Booklet and on the personalised Proxy Form sent to each shareholder.

Dated: 31 March 2025

By order of the Board



Stephen Tofler

Company Secretary

Annexure A



xReality Group Ltd

(ASX: XRG)

ACN 154 103 607

Independent Expert's Report

Report to Existing Shareholders on the issue of new XRG shares in accordance with the shareholder approvals required under Item 7, Section 611 of the Corporations Act 2001

Report Issued: 29 March 2025

29 March 2025

The Directors
xReality Group Limited
Suite 2A
106 Old Pittwater Road
Brookvale NSW 2100

Titan Partners Corporate Finance Pty Limited
Australian Financial Services
Licence Number: 427275
ABN 38 177 095 636
Level 3, 7 Macquarie Place
Sydney NSW 2000
PO Box R415
Royal Exchange NSW 1225
Australia
T +61 2 9268 3300
www.titanpartners.com.au

Dear Directors,

INDEPENDENT EXPERT'S REPORT – XREALITY GROUP LIMITED

1. Overview

1.1 Introduction

Titan Partners Corporate Finance Pty Limited ("**Titan Partners Corporate Finance**", "**we**") was appointed by the directors of xReality Group Limited ("**XRG**", "**xReality**", the "**Business**", the "**Company**") and its shareholders as an independent expert, to provide an opinion whether the proposed conversion of an outstanding loan from the Birkdale Holdings (Qld) Pty Limited ("**Birkdale**") into ordinary equity of the Company, is fair and reasonable to existing XRG shareholders (the "**Existing Shareholders**"), collectively the "**Proposed Transaction**".

On 5 March 2025, XRG¹ announced to the Australian Securities Exchange Limited ("**ASX**") that it had entered into a conditional debt repayment and subscription agreement with Birkdale. The Proposed Transaction comprises the following key components:

- XRG will convert current debt owing to Birkdale totalling approximately \$4.628 million calculated to 30 April 2025 into equity ("**Birkdale Debt**");
- XRG will issue 92,565,249 new fully paid ordinary shares in the Company to Birkdale at a subscription price of \$0.05 per share ("**New Share**");
- XRG will apply all of the Debt as the subscription monies for the Shares; and
- To the extent that there are any costs, accrued interest or timing overruns in excess of this amount, XRG intends to settle these costs in cash in extinguishing the debt owing to Birkdale in full.

Further details of the Proposed Transaction are set out in the Notice of Meeting, which has been prepared by the Directors of XRG for the Existing Shareholders, and which our Report accompanies.

1.2 Purpose

At the completion of the Proposed Transaction, Birkdale will in aggregate hold more than 20% of the issued shares in XRG. Section 606 of the *Corporations Act 2001* prohibits the acquisition of a relevant interest in a listed company's shares, if a person's voting power in the company increases above 20%. This prohibition is subject to the exceptions set out in Section 611 of the *Corporations Act 2001*. Specifically, Item 7 of Section 611 contains an exception in circumstances where the relevant acquisition of shares is approved by resolution at a general meeting of the company.

Existing Shareholders are being asked by XRG to vote on Resolution 1 in the Notice of Meeting to approve the Proposed Transaction. To assist the Existing Shareholders in making an informed decision on whether to approve the Proposed Transaction, we were appointed by the Directors of XRG to prepare an Independent Expert's Report ("**Report**"). Our Report will express an opinion as to whether or not the Proposed Transaction is fair and reasonable to Existing Shareholders. Titan Partners Corporate Finance is independent of XRG and Birkdale, with no interest or involvement in the outcome of the Proposed Transaction, other than the preparation of this Report.

¹ XRG is listed on the Australian Securities Exchange

1.3 Approach

In preparing the Report herein, we consider Regulatory Guide 111 *Content of expert reports* (“**RG111**”) dated October 2020 issued by ASIC, which sets out requirements of expert reports. Specifically, RG111 requires an independent expert to consider an acquisition approved by security holders using the same approach as takeover bids under the concepts of “fairness” and “reasonableness”.

Fairness

In accordance with RG111.11, an offer is ‘fair’ if the value of the price or consideration offered is equal to or greater than the value of the securities subject to the offer. The comparison is required to be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length; and
- assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison.

In accordance with the requirements of RG111, we have compared the fair value of a share in XRG prior to the Proposed Transaction on a controlling basis to the value of a share in XRG post completion of the Proposed Transaction on a minority basis.

Reasonableness

The concept of reasonableness is set out in RG111.12. An offer is ‘reasonable’ if it is fair. An offer might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons to accept the offer in the absence of any higher bid before close of the offer.

We therefore separately consider whether the Proposed Transaction is “fair” and “reasonable” from the perspective of the Shareholders, based on our assessment of these concepts.

2. Summary of Opinion

2.1 Opinion

We conclude, based on the assessment outlined in the remainder of this Report, that the Proposed Transaction is **not fair but reasonable** to the Existing Shareholders. The principal factors that we have considered in forming our opinion are summarised below. This summary should be read in conjunction with the remainder of our Report herein, that sets out in full the purpose, scope, basis of evaluation, limitations, detailed analysis and our financial and qualitative findings.

2.2 Assessment of Fairness

In determining whether the Proposed Transaction is fair to the Existing Shareholders, we have compared the assessed fair value of a share in XRG on a controlling basis prior to the Proposed Transaction, to the value of consideration offered, being the value of a XRG share post the Proposed Transaction.

Our analysis is set out in Sections 8 through 10, as summarised in the following table.

xReality Group Limited Valuation Summary		
cents per Share	Low	High
Value per XRG Shares prior to Proposed Transaction on a Control Basis	3.84	4.74
Value per XRG share Post Proposed Transaction on a Control Basis	4.00	4.78
Less: Minority Discount	23%	23%
Value per XRG Shares post Proposed Transaction on a Minority Basis	3.08	3.68

Source: Titan Partners Corporate Finance Analysis

As set out above, our assessed valuation range of a XRG share post the Proposed Transaction on a minority basis falls below a XRG share prior to the Proposed Transaction on a control basis.

As we have adopted the same valuation methodology for XRG shares both prior to and post the Proposed Transaction, we compared the respective lower and upper end of the valuation ranges. At the respective lower and upper end of the valuation ranges, the value of a XRG share post the Proposed Transaction on a minority basis is less than the value of a XRG share prior to the Proposed Transaction on a control basis. In accordance with RG111, the above valuation analysis indicates that in the absence of any other relevant information, the Proposed Transaction is deemed to be **not fair** to Existing Shareholders.

2.3 Assessment of Reasonableness

As set out in Section 1.3 above, RG111 considers an offer to be reasonable if:

- The offer is not fair; or
- Despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

We have considered the analysis set out in Section 10 of this Report, in terms of advantages and disadvantages of the Proposed Transaction. In forming our opinion, we have also considered the following relevant reasonableness factors:

Advantages

- The Birkdale Debt is to be converted at a share price of \$0.05 per newly issued XRG share, being a premium of 39% of the last traded price on 4 March 2025, being the date the Proposed Transaction was announced to the ASX.
- Immediately reduces total debt held on balance sheet by approximately \$4.6 million at the completion of the Proposed Transaction and improve debt-to-equity ratio from 0.19 to 0.09. With lower debt levels following the Proposed Transaction, XRG may have the opportunity to secure more favourable loan terms for future borrowing needs.
- Strengthens the company's financial position, improving its attractiveness to future investors and financiers if required to assist in the next stage of growth.
- Reduce interest expense payable on the outstanding debt and improves future profitability of the Company.
- Mitigates the risk of default on borrowings and reduces the likelihood of future going concern issues should XRG face challenges in meeting its repayment obligations.
- Further aligns the interests of a debtholder and long-term shareholder with the Company's long-term growth objectives, rather than focusing on debt repayments.
- There are currently no alternative offers or proposals received.

Disadvantages

- Dilution of existing interests, as the Proposed Transaction requires XRG to issue additional shares in the Company to Birkdale to settle the outstanding debt, albeit at a price higher than the historical share trading price since July 2024.
- Interest expense is tax deductible and provides tax savings. The proposed debt conversion eliminates interest expense and tax saving opportunity, although we note that the company currently has significant carried forward tax losses and is unlikely to pay income tax in the short term.
- Cost of equity is typically considered higher than cost of debt.
- Deterrence of alternative offers from other parties.

In our opinion, based on our assessment of the advantages against the disadvantages, even though we concluded that the transaction is not fair, we consider the Proposed Transaction to be reasonable to XRG Shareholders. In forming our opinion with respect to reasonableness, we consider that the advantages outweigh the disadvantages of the Proposed Transaction.

2.4 Other Factors

The above summary of our opinion and conclusion should be read in conjunction with the remainder of this Report and Appendices as attached herein.

The Directors of XRG have recommended Shareholders vote in favour of the Proposed Transaction for reasons as set out in Section 10.6, including the following:


- the “outstanding opportunity to strengthen the Balance Sheet of the Company”; and
- the Proposed Transaction is at “a material premium to the current trading price”.

Titan Partners Corporate Finance has prepared a Financial Services Guide as required by *Corporations Act 2001* that is attached at Appendix 1. This Report is for general financial advice only and was prepared without taking into account the objectives and circumstances of individual Shareholders of the Company. Our Report herein should be read in conjunction with the Notice of Meeting which it accompanies.

Unless the context requires otherwise, references to “we”, “our” and similar terms refer to Titan Partners Corporate Finance.

Yours faithfully

Titan Partners Corporate Finance Pty Limited



BRAD HIGGS
Director

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3. Scope of Report

3.1 Purpose of the Report

Titan Partners Corporate Finance has been engaged by the Directors of XRG to prepare an Independent Expert's Report with respect to the Proposed Transaction.

Section 606 of the *Corporations Act 2001* prohibits the acquisition of an interest in a public company's shares if a person's voting power increase above 20%. This prohibition is subject to the exceptions set out in Item 7 of Section 611 of the *Corporations Act 2001*, where shareholders other than the parties involved in the acquisition agree by resolution at a general meeting to the proposed acquisition of such shares.

ASIC issued Regulatory Guide 74 ("RG 74") states directors are required to provide sufficient information to shareholders to assess the merits of a proposal, such as that contemplated under the Proposed Transaction. Directors also have a duty to provide shareholders with full and proper disclosure, such that shareholders are fully informed of the nature of the resolutions proposed at a general meeting

If the Proposed Transaction proceeds, Birkdale will hold in aggregate greater than 20% of the issued shares of XRG upon completion of the Proposed Transaction. Accordingly, Titan Partners Corporate Finance was appointed by XRG as an independent expert and prepare a report to be attached to the Notice of Meeting sent to Existing Shareholders in relation to the Proposed Transaction.

This Report has been prepared to assist Existing Shareholders to consider, whether to approve the Proposed Transaction, as summarised at Section 4 below, under the relevant exception set out in item 7 of Section 611 of the *Corporations Act 2001*. The Report herein sets out our approach, analysis and opinion as to whether the Proposed Transaction is fair and reasonable to XRG Existing Shareholders.

Our Report is to be included in the Explanatory Memorandum to be issued to Existing Shareholders in accordance with the *Corporations Act 2001* and has been prepared for the exclusive purpose of assisting the Shareholders in their consideration of the Proposed Transaction.

3.2 Basis of Assessment

In preparing the Report herein, we consider RG111 which sets out requirements of expert reports.

RG111 indicates the principles and matters which it expects an expert person preparing an independent expert report to consider. The regulations in RG111 require an independent expert to consider a scheme of arrangement using the same approach as takeover bids under the concepts of "fairness" and "reasonableness".

Fairness

In accordance with RG111.11, an offer is 'fair' if the value of the price or consideration offered is equal to or greater than the value of the securities subject to the offer. The comparison is required to be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison.

In accordance with the requirements of RG111, we have compared the fair value of a share in XRG on a controlling basis prior to the Proposed Transaction to the value of a share in XRG post completion of the Proposed Transaction on a minority basis which encompasses the issue of shares to Birkdale and associated settlement of the Birkdale Debt.

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Reasonableness

The concept of reasonableness is set out in RG111.12. An offer is ‘reasonable’ if it is fair. An offer might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons to accept the offer in the absence of any higher bid before close of the offer. In forming our opinion with respect to reasonableness, we consider that the advantages outweigh the disadvantages of the Proposed Transaction.

We therefore separately consider whether the Proposed Transaction is “fair” and “reasonable” from the perspective of the Shareholders. Based on our assessment of these concepts.

3.3 Sources of Information

In forming our opinion on the Proposed Transaction and preparing the Report herein, we have considered, adopted and relied upon certain information prepared by the Directors and Management of XRG, and external parties including advisors to the Company. Refer to Appendix 4 for a list of our sources of information.

3.4 Limitations and Reliance on Information

Our opinions are based on economic, financial, operational and other conditions and expectations prevailing at the date of this Report. These conditions can change significantly over relatively short periods of time and, if such material change occurs, the opinions expressed in this Report could differ.

Titan Partners Corporate Finance has no obligation to, nor does it undertake to, advise any person of any change in circumstances that has come to its attention after the date of this Report or to review, revise or update this Report or the opinions contained herein. It is understood that the financial information provided to us was prepared in accordance with generally accepted accounting principles and Australian Equivalents to International Financial Reporting Standards issued by the AASB².

We have evaluated the information set out in Section 3.3 through analysis, enquiry and review, as appropriate for the purposes of preparing this Report and forming our opinion on the Proposed Transaction. Titan Partners Corporate Finance do not warrant that our evaluation has identified or verified all of the matters that an audit, extensive examination or due diligence investigation may disclose.

We have relied on certain representations and relevant information provided by the Directors and Management of XRG. This information was evaluated through analysis, enquiry and review. However, such information is often not capable of external verification or validation and has therefore not been independently verified.

To the extent that there are any legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Titan Partners Corporate Finance:

- assumes no responsibility and offers no legal opinion or interpretation on any issue;
- assumes the Proposed Transaction to be approved, will be implemented in accordance with the stated terms and the legal mechanisms to implement the Proposed Transaction are correct and effective, and will not materially change or be altered; and
- has generally assumed that matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so.

We have not undertaken any commercial, technical, financial, legal, taxation and due diligence activity in respect to XRG. Titan Partners Corporate Finance do not provide assurance or an opinion in respect of these matters.

² Australian Accounting Standards Board

4. The Proposed Transaction

4.1 Transaction Summary

Introduction

On 5 March 2025, XRG announced to the ASX ("**5 March Announcement**") that the company entered into a conditional debt repayment and subscription agreement (the "**Birkdale Agreement**") with its largest shareholder, Birkdale. As at the date of this Report, the Agreement remains conditional on shareholders' approval, in accordance with the Corporations Act 2001.

Debt Conversion

Under the Birkdale Agreement, XRG proposes that the current debt expected to be owing to Birkdale, estimated to be approximately \$4.628 million³ as at 30 April 2025 pursuant to the loan facility between the Company and Birkdale originally dated 19 June 2018, be converted to shares. XRG will issue 92,565,249 fully paid ordinary shares in the Company to Birkdale at a price of \$0.05 per share, representing a 39%⁴ premium over the closing price⁵ on 4 March 2025. To the extent that there are any costs, accrued interest or timing overruns in excess of this amount, XRG intends to cash settle these costs in extinguishing the Birkdale Debt in full. XRG will apply all of the Debt as the subscription monies for the Shares, and no additional disclosure document will be issued with respect to the issue of Shares.

Indicative Timing

In order to proceed, the Proposed Transaction must be approved by Shareholders for the purposes of Section 611, Item 7 of the Corporations Act at an extraordinary general meeting ("**EGM**"). Subject to receiving approvals from the Existing Shareholders, the issue of shares under the Agreement is anticipated to occur on 1 May 2025.

Terms and Conditions

The Proposed Transaction will be subject to a number of key conditions as set out in the 5 March Announcement by XRG and the Birkdale Agreement, including:

- Approval from XRG Shareholders under Item 7 of Section 611 of the Corporations Act 2001;
- Removal or release of the PPSR⁶ Registrations from the PPSR.

4.2 Key Implications of Proposed Transaction

If approved by the Shareholders, the Proposed Transaction would result in the following changes when completed, from the perspective of the XRG Shareholders

- **Improved balance sheet position** – The Proposed Transaction will reduce debt and therefore liabilities and increase the equity account, reducing the amount of leverage in the company and strengthening the balance sheet. It will also reduce debt servicing expenses.
- **Increase in Birkdale shareholdings** – The Proposed Transaction will increase Birkdale's ownership of XRG, increasing their influence over the board and management. As they will own greater than 25% of shares in the company, they will have the ability to block special resolutions which require 75% of shareholder votes to pass.
- **Dilution of Existing Shareholders** – The issuance of 92,565,249 fully paid ordinary shares in the Company will increase the total number of shares outstanding to 663,547,525, diluting the value of the existing shareholders' ownership.

³ Includes capitalised interest and expenses.

⁴ The 5 March Announcement indicates the Birkdale Debt is converted on a premium of 39% based on the latest traded price.

⁵ Further analysis on share price is set out in Section 8.3

⁶ Personal Property Securities Register

- **Mitigation of Going Concern Risk** – The Company’s auditor, Accru Felsers, has raised concerns regarding the Company’s ability to continue as a going concern in the FY2024 Financial Report. This assessment is based on XRG reporting a loss after tax for FY2024 of approximately \$4.1 million and a net deficiency in current assets of approximately \$2.1 million as at the end of FY2024. Upon completion of the Proposed Transaction, XRG will reduce its debt level by approximately 50%, thereby significantly mitigating the risk associated with its ability to function as a going concern.

Post Completion Ownership Structure

If approved by Existing Shareholders and subsequently completed as set out above, the ownership structure of XRG comprising Birkdale and the existing shareholders of XRG will increase as summarised below. The issuance of shares to Birkdale will increase the total number of shares on issue to 663,547,525, and which represents an increase in Birkdale’s total holdings from 17.5% prior to the Proposed Transaction, to 29.0% post the Proposed Transaction.

xReality Group Limited Post Completion Shareholding Structure		
	Shares	%
Existing XRG Shares on Issue as at 5 March Announcement	570,982,276	86.0%
XRG New Shares to be Issued to Birkdale	92,565,249	14.0%
Total Post Transaction XRG Shares on Issue	663,547,525	100%

Source: XRG Share Register, Titan Partners Corporate Finance Analysis

xReality Group Limited Birkdale Post Completion Share Ownership	
Birkdale ownership in XRG as at 5 March Announcement	99,638,163
Shareholding pre-Proposed Transaction	17.5%
XRG New Shares to be Issued to Birkdale	92,565,249
Total Post Proposed Transaction Birkdale Share Ownership	192,203,412
Total Post Proposed Transaction XRG Shares on Issue	663,547,525
Birkdale Shareholding post Proposed Transaction	29.0%

Source: XRG Share Register, Titan Partners Corporate Finance Analysis

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5. Profile of xReality

5.1 Business Overview

History and Introduction

xReality Group, originally founded as Indoor Skydive Australia Group Limited in 2011, is a developer and operator of eXtended Reality (“XR”) products and services, including virtual reality (“VR”), augmented reality (“AR”), and mixed reality (“MR”). The Company was listed on the ASX in 2013, before being renamed to xReality Group Limited in 2021. Its operations comprise of four business units:

- Operator XR (simulation training for defence and law enforcement) (“Operator”);
- Red Cartel (XR content production);
- iFLY (indoor skydiving experiences) (“iFly”); and
- FREAK Entertainment (retail VR experiences) (“Freak”).

Operator XR

Operator XR (“Operator”) specialises in providing VR simulation training for law enforcement and military purposes, producing portable VR training products and software, which allows customers to conduct virtual training missions using their own specific service weapons and equipment. The Australian operations were launched in 2021 with a Sydney office, which expanded into the United States in 2023 with an office in Alexandria, Virginia.

Operator XR offers the proprietary OP-2 System, which allows military and law enforcement teams to train and rehearse close quarters and urban combat scenarios within a VR environment. The system is portable into a compact case and can be used by up to four users. Military users train using their own service weapons, with a “drop in” kit which replaces the bolt and magazine of the weapon, with a simulated recoil system and weapon trackers. The simulations operate using the included tablet device and does not require an external computer, such that the system is operated completely offline, is secure and does not require an internet connection.

The accompanying OP-2 Scenario Creator Suite allows clients to personalise their virtual training environment to suit their requirements. It features an extensive virtual asset library of over 100 interactive props, real time scenario editing to apply adjustments throughout the session, and dynamic role players including suspects, bystanders and crowds that react to commands and events.

In 2022, XRG partnered with DroneShield, an ASX-listed defence technology company, to develop a VR counter-drone training system. The system integrates with DroneShield’s DroneGun product range, allowing customers to rehearse counter-drone tactics, techniques and procedures in a range of immersive environments.

Historically, Operator’s sales have focussed on the Australian and United States markets. In 1H2024, the company focused on expanding its US operations, through trade shows and selective customer interactions. This led to the establishment of a permanent Sales team and Operations unit, and securing its first law enforcement client in the US state of Colorado. In 2H2024, XRG added a further 24 customers in the United States, across law enforcement and training organisations.

The Company has several key customers across Australia and the United States. In the US, XRG has concentrated on the Law Enforcement market and has a 20-month project worth AUD \$5.6m with the US Department of Defense. In Australia, key customers also include law enforcement agencies and two customers within the Australian Defence Force. In July 2024, XRG announced it was awarded a contract worth AUD \$809,600 with an Australian State Government, for the delivery of its Operator XR System, which was delivered in late August 2024. Other target markets include South-East Asia and Europe, with Operator establishing a distributor network in these regions, with sales expected to commence in FY2025.

Red Cartel

Red Cartel is a provider of VR, AR, XR and animation content for a range of industries, including advertising, gaming, construction, healthcare and government. XRG acquired Red Cartel in 2021 to provide an in-house development capability.

The Red Cartel business develops flexible VR and AR experiences, for recreational, enterprise, marketing and practical training and educational purposes. Red Cartel also develops 3D animations and gaming content for casinos and clubs, 3D art and animations for TV, games, web and film, as well as mobile and desktop application development services.

iFly

XRG operates two indoor skydiving facilities, iFly Downunder, located in western Sydney and iFly Gold Coast. Both facilities simulate the experience of skydiving in a controlled environment and have been constructed using technology licensed from iFly Holdings LLC, a USA based entity ("**iFly Holdings**").

Located in Penrith, NSW, iFly Downunder was established in 2014 and is the largest facility of its kind in the southern hemisphere. It attracts over 200,000 customers annually and is a profitable division of XRG. iFly Gold Coast is located in Surfers Paradise, Queensland, with exposure to a high level of foot traffic and is operating at breakeven on a financial year basis. Both facilities serve a range of customers, including local and international tourists, professional skydivers and military personnel.

Freak

Freak, established in 2019, provides VR entertainment experiences to retail customers. It operates venues provide VR gaming experiences such as but not limited to VR arcade games, VR escape rooms, VR laser tag and VR racing games. FREAK Entertainment operates 4 venues across NSW and Queensland, including Freak Penrith, Freak Bondi, Freak Macquarie and Freak Surfers Paradise. The Freak business utilises proprietary VR gaming technology and software developed in-house.

5.2 Ownership Structure

Major shareholders of XRG as at 19 March 2025, prior to the completion of the Proposed Transaction are summarised below.

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xReality Group Limited Current Ownership Structure

Name	Units	%
Major Shareholders		
Birkdale Holdings (Qld) Pty Ltd	99,638,163	17.45
Mr Kim Hopwood	31,005,701	5.43
Project Gravity Pty Ltd	27,974,513	4.90
BNP Paribas Noms (NZ) Ltd	23,216,492	4.07
Patagorang Pty Ltd	22,301,587	3.91
Excalib-Air Pty Ltd	16,060,000	2.81
Quad Investments Pty Ltd	11,916,667	2.09
Curry Group Pty Ltd	10,552,517	1.85
Mr Philip Raeburn Copeland	9,863,719	1.73
Project Flight Pty Ltd	8,825,897	1.55
Hgl Investments Pty Ltd	8,312,405	1.46
Galdarn Pty Ltd	8,200,000	1.44
Hopwood Family SMSF Pty Ltd	6,228,179	1.09
Bellona Capital Pty Ltd	5,215,174	0.91
Drill Investments Pty Ltd	5,000,000	0.88
Netwealth Investments Limited	4,947,572	0.87
Harebren Pty Ltd	4,500,000	0.79
Mr Stephen Tofler	4,346,457	0.76
Howard-Willis Limited	4,293,759	0.75
Mr Michael Adam Crebar	4,222,384	0.74
Top 20 Shareholders	316,621,186	55.45
Other Shareholders	254,361,090	44.55
Total Shares Issued	570,982,276	100.00

Source: XRG Share Register as at 19 March 2025.

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5.3 Market Announcements

The following table sets out the recent announcements released by XRG to the ASX. The full list of announcements since September 2024 by the Company is set out at Appendix 5.

xReality Group Limited Recent Company Announcements	
Announcement Date	Title
05/03/2025	XRG Investor Presentation HY25
05/03/2025	Debt Conversion at 39% Premium to XRG Market Close
05/03/2025	Proposed issue of securities - XRG
28/02/2025	Appendix 4D and Half Year Financial Report
06/02/2025	Notification of cessation of securities - XRG
06/02/2025	Cleansing Notice
06/02/2025	Application for quotation of securities - XRG
05/02/2025	Proposed issue of securities - XRG
31/01/2025	Quarterly Activities Report and Appendix 4C - 31 Dec 24
28/01/2025	Notification regarding unquoted securities - XRG
09/12/2024	Change of Directors Interest Notice
06/12/2024	Correction and Late Lodgement of Appendix 3Y
02/12/2024	Change of Director's Interest Notice
29/11/2024	Change of Director's Interest Notice
29/11/2024	Change of Director's Interest Notice
29/11/2024	Change of Director's Interest Notice
28/11/2024	Notification of cessation of securities - XRG
28/11/2024	Change of Director's Interest Notice
27/11/2024	Application for quotation of securities - XRG
27/11/2024	Application for quotation of securities - XRG
27/11/2024	Notification regarding unquoted securities - XRG
26/11/2024	Proposed issue of securities - XRG
22/11/2024	Results of 2024 Annual General Meeting
22/11/2024	Operator XR Sales Update November 24
22/11/2024	2024 AGM - Chairman's Address to Shareholders
21/11/2024	Notification regarding unquoted securities - XRG
08/11/2024	Ceasing to be a substantial holder
08/11/2024	Change in substantial holding
31/10/2024	Quarterly Activities Report and Appendix 4C - 30 Sept 24
25/10/2024	2024 Notice of Annual General Meeting
11/10/2024	Additional Funding Secured to Support Order Outlook
25/09/2024	Change of Director's Interest Notice
13/09/2024	XRG Investor Presentation FY24
13/09/2024	2024 Annual Report
13/09/2024	Appendix 4G FY2024
13/09/2024	2024 Statement of Corporate Governance
11/09/2024	\$5.6M contract awarded for US Department of Defense project
06/09/2024	Application for quotation of securities - XRG
05/09/2024	Proposed issue of securities - XRG
05/09/2024	Application for quotation of securities - XRG
05/09/2024	Application for quotation of securities - XRG

Source: ASX Announcements

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5.4 Industry Overview

By virtue of the Company's current business model, XRG operates across multiple industries. Specifically, we consider the Operator and Red Cartel businesses may be classified as part of the global extended reality (XR) industry, whilst the iFly and Freak businesses may be classified into the 'Amusement Parks and Centres' segment of the leisure and entertainment sector.

The global extended reality industry, which includes AR, MR and VR industry sub-segments, has experienced significant growth over recent years and is poised for even higher growth rates in the short term. This growth has been and will continue to be underpinned by both rapid technological advancements and the increase in industry applications for the technology. The size of the global virtual reality market is estimated by Fortune Business Insights to be USD 253.5 billion in FY2025, an increase from USD 184.0 billion in FY2024. It is estimated to reach USD 1,625.48 billion by FY2032, growing at a compound annual growth rate ("CAGR") of 30.4% during this period⁷.

Technological advancements have significantly improved the capabilities of XR products. Developments in hardware have greatly improved the graphics and performance of the products, whilst the development of 5G networks and Artificial Intelligence ("AI") are enabling a more engaging and seamless user experience. This has accelerated XR adoption across a range of sectors. XR is becoming increasingly integrated into commercial applications across sectors such as education, healthcare, and defence, where its use for professional training environments is especially significant. In September 2023, the U.S. Department of Defense awarded a USD 90 million contract to HTX Labs to create VR-based training programs for the US Air Force⁸.

Despite performing strongly in the years after the pandemic, revenues for the Amusement Parks and Centres industry have contracted. The post pandemic period saw significant revenue growth rates in the industry, with revenue in FY2022 and FY2023 growing by 8.6% and 13.7% respectively⁹. This has primarily been driven by pent up demand and large domestic savings levels. However, in recent years pressure on household budgets and lower discretionary incomes as a result of the post COVID 19 inflation have reduced demand, resulting in lower revenues for entertainment venues. In FY2024, revenue contracted by -1.2% and it is not expected to grow in FY2025, according to research conducted by IBISWorld⁷.

Beyond 2025, the industry is expected to experience growth, with recovering household discretionary incomes and continued growth in international tourism set to drive this recovery. Should interest rates continue to fall in 2025 pressure on household budgets may ease, increasing patronage to entertainment venues, both locally and interstate. Industry revenue is forecast by IBISWorld to grow at a CAGR of 2.3% from FY2025 to FY2030⁷.

The Amusement Parks and Centres and global XR industries are poised for substantial growth in the short term, placing XRG in a strong position for revenue growth over this period.

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⁷ Fortune Business Insights. (Mar 2025). Extended Reality (XR) Market Size, Share & Industry Analysis. Source: <https://www.fortunebusinessinsights.com/extended-reality-market-106637>

⁸ Mordor Intelligence. (2025). Virtual Augmented and Mixed Reality (VR/AR) Market Size, Growth Trends, Share & Companies (2025 - 2030). Source: <https://www.mordorintelligence.com/industry-reports/virtual-augmented-and-mixed-reality-market>

⁹ IBISWorld. (Feb 2025). Amusement Parks and Centres Operation in Australia - Market Research Report (2015-2030) (R9131). Source: <https://my.ibisworld.com/au/en/industry/R9131/at-a-glance>

5.5 Historical Financial Performance

The audited financial performance of XRG for the three most recent financial years being FY2022, FY2023 and FY2024 is summarised in the table below.

xReality Group Limited Historic Operating Results							
\$'000s	Notes	FY2022		FY2023		FY2024	
		Actual	%	Actual	%	Actual	%
Revenue	1	6,575	100.0%	9,754	100.0%	9,155	100.0%
Cost Of Sales	2	1,503	22.9%	1,949	20.0%	1,624	17.7%
Gross Profit		5,072	77.1%	7,804	80.0%	7,531	82.3%
Other Income	3	619	9.4%	791	8.1%	1,083	11.8%
Employee Expense	4	3,493	53.1%	5,051	51.8%	5,865	64.1%
Advertising		480	7.3%	612	6.3%	608	6.6%
Occupancy		47	0.7%	275	2.8%	286	3.1%
Professional Fees		136	2.1%	323	3.3%	465	5.1%
IT & Software		24	0.4%	71	0.7%	96	1.0%
Impairment of Asset	5	3,352	51.0%	(960)	(9.8%)	-	-
Telephone & Internet		121	1.8%	99	1.0%	115	1.3%
Development Costs	6	753	11.5%	39	0.4%	169	1.9%
Travel Costs	7	17	0.3%	45	0.5%	569	6.2%
General & Other		567	8.6%	882	9.0%	721	7.9%
Total Expenses		8,991	136.7%	6,437	66.0%	8,895	97.2%
Reported EBITDA		(3,300)	(50.2%)	2,158	22.1%	(281)	(3.1%)
Depreciation Expense	8	2,122	32.3%	2,216	22.7%	2,109	23.0%
Reported EBIT		(5,422)	(82.5%)	(59)	(0.6%)	(2,389)	(26.1%)
Interest Income		-	-	-	-	18	0.2%
Interest Expense	9	1,511	23.0%	1,632	16.7%	1,740	19.0%
Reported NPBT		(6,932)	(105.4%)	(1,691)	(17.3%)	(4,112)	(44.9%)

Source: Historical Financial Statements, Management Reports

We note the following with respect to the historical financial performance of XRG:

1. XRG operates two business segments: the “**Entertainment Segment**” comprises the operations of two iFly indoor skydive centres and four Freak entertainment venues, while the “**Enterprise Segment**” comprises the Operator and Red Cartel business units. Refer to Section 5.1 above for further detail on each. Entertainment Segment income includes Media income which relates to sale of photos and videos of participants engaged in the entertainment activities.

In FY2022, approximately 98% of total revenue was derived from the Entertainment Segment and the remaining sales were generated by a service offered in the Enterprise Segment. With the expansion of the Enterprise Segment, its revenue has grown 632% over the two years leading up to FY2024. Revenue generated by the Enterprise Segment in FY2024 was approximately \$0.72 million, which represents 8% of the total revenue generated by XRG.

2. Cost of Sales primarily related to utility expenses incurred in various entertainment venues and royalty expense payable to iFly Holdings.
3. Other Income are government grants received that include research and development grant, export market development grants and training grants.
4. Employee Expenses are comprised of salary and wage expenses, superannuation expenses, leave expenses and staff training.
5. In FY2022, XRG conducted an impairment test on the iFly Gold Coast facility, resulting in an impairment expense of \$3.35 million. However, in FY2023, a subsequent impairment test was performed, leading to a reversal of the impairment expense previously recorded in FY2022.
6. Development costs relate to research and development in the VR technology used. XRG Management advised recent development costs have been capitalised.
7. With revenue continued to increase in the Enterprise Segment in FY2024, the Business has focused on expanding in the US market resulting in a material in international travel costs. Over 80% of the Travel Costs relate to the Enterprise Segment.
8. General and Other Expenses comprise foreign exchange gain and losses, share registry fees, office expenses, administration expenses, entertainment and other miscellaneous expenses.
9. Depreciation Expenses relates to depreciation on fixed asset and lease assets recognised under AASB 16¹⁰.
10. Interest Expense relates to interest payable on borrowings and interest expenses recognised under AASB 16.

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¹⁰ Australian Accounting Standards Board ("AASB") Standard AASB16 requires businesses to recognise long-term lease as an asset and a liability. The lease asset is depreciated over the lease term, and the lease liability incurs interest expense, which is recognised over the duration of the lease

5.6 Current Year Financial Performance

The audited financial performance for 1H2025 is summarised in the table below.

xReality Group Limited Current Operating Results			
\$'000s	Notes	1H2025 Actual	%
Revenue	1	5,919	100.0%
Cost Of Sales	2	1,035	17.5%
Gross Profit		4,884	82.5%
Other Income		1,496	25.3%
Employee Expense	3	3,614	61.1%
Advertising		400	6.8%
Occupancy		204	3.5%
Professional Fees		179	3.0%
IT & Software		61	1.0%
Telephone & Internet		91	1.5%
Development Costs		1	0.0%
Travel Costs	3	444	7.5%
General & Other		510	8.6%
Total Expenses		5,503	93.0%
Reported EBITDA		877	14.8%
Depreciation Expense		977	16.5%
Reported EBIT		(100)	(1.7%)
Interest Income		9	0.2%
Interest Expense		901	15.2%
Reported NPBT		(992)	(16.8%)

Source: Management/Historical Financial Statements

We note the following with respect to the current year financial performance of XRG:

1. The 1H2025 total revenue has grown to approximately \$11.4 million on an annualised basis, representing a 32.5% growth on the total revenue in FY2024. The revenue growth is primarily derived from multiple service contracts secured in the Enterprise Segment.
2. Cost of sales are expected to grow with the increase in revenue generated by the Enterprise Segment which include VR inventory purchases and sales commissions.
3. Management expects to further expand the Enterprise Segment and seeks opportunities in Asia and Europe leading to a material increase in employment costs and travel costs in the Enterprise Segment. Management has outlined plans to further expand the Enterprise Segment, with a particular focus on growth in the United States. Additionally, Management is actively exploring new opportunities to establish a presence in Asia and Europe. These strategic initiatives are expected to result in a significant increase in employee expenses and international travel costs, as additional staff will be required to support the expansion and make travels within these regions.

5.7 Revenue Performance – Entertainment Segment

We are provided with management financial performance of four business units: iFly, Freak, Operator Consolidated and Corporate. The Operator Consolidated unit includes financial performance of both Operator and Red Cartel. The Corporate unit comprises corporate overhead expenses¹¹ and other income that have not been allocated to the two business segments. Management has provided an indicative estimated cost allocation of Corporate expenses between the Entertainment and Enterprise Segments for FY2024 and 1H2025¹².

Set out below summarised the revenue performance of the Entertainment Segment based on management financial performance of iFly, Freak and the portion of Corporate income allocated to the Entertainment Segment for FY2024, and 1H2025. We note the management revenue performance we presented for the Entertainment Segment below is different to that is reported in the audited financial report. The audited financial report excludes the allocation of Corporate income and expense.

xReality Group Limited – Entertainment Segment					
Historic Operating Results					
\$'000s	Notes	FY2024		1H2025	
		Actual	%	Actual	%
Revenue	1	8,435	100.0%	3,806	100.0%

Source: Management Financial Information

We note the following with respect to the financial performance of the Entertainment Segment.

1. The iFly operations account for 80% of revenue in the Entertainment Segment, with the remainder comprising Freak income and gift card breakage. We note there is a decline in revenue derived from the Freak venue operations. Based on the Investor Presentation published on 5 March 2025, Management expect to an exit of the Freak operations by 30 June 2025. Revenue also includes Other Income such as rent income (subletting retail space in iFly properties).

5.8 Revenue Performance – Enterprise Segment

Set out below summarised the financial performance of the Enterprise Segment based on management financial performance of Operator Consolidated and the portion of Corporate income allocated to the Enterprise Segment for FY2024 and, 1H2025.

xReality Group Limited – Enterprise Segment					
Historic Operating Results					
\$'000s	Notes	FY2024		1H2025	
		Actual	%	Actual	%
Revenue	1	720	100.0%	2,113	100.0%
Other Income	2	1,083	150.1%	1,505	71.2%

Source: Management Financial Information

1. The Enterprise Segment includes business operation of Operator and Red Cartel. Red Cartel, which was acquired by XRG as a virtual reality (VR) specialist in entertainment and animated content, has shifted its focus internally. Management has indicated that Red Cartel now supports Operator with VR development and no longer generates revenue from external clients.

¹¹ Example of expenses included in Corporate are insurance, Operator development costs, gift card breakage, salary and wage expense, share registry fee and other income.

¹² We note this is a management estimate only, as this allocation is not actively reported on in the Financial Reports of the Company.

Operator has successfully secured contracts to provide defence and police simulation training solutions in the United States. These contracts typically have standard terms of 36 months and billable on a monthly basis. Management advised annual recurring revenue ("**ARR**") was \$2.2 million in June 2024 and has grown by 60% to \$3.6 million in December 2024.

2. Other income relates to Research and Development Grant received from the Australian Taxation Office.

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5.9 Financial Position

The financial position of XRG as at the end of FY2023, FY2024 and 1H2024 is summarised below.

xReality Group Limited Historic Reported Balance Sheet				
\$'000s	Notes	Jun-23 Actual	Jun-24 Actual	Dec-24 Actual
Current Assets				
Cash		752	1,366	1,687
Debtors		404	2,363	889
Inventories	1	31	173	567
Trade and other receivables		440	341	121
Deferred Expenses (Current)	2	-	152	698
Other current assets		94	-	-
Total Current Assets		1,721	4,395	3,963
Non-Current Assets				
Indoor Skydive Facility	3	19,176	18,636	18,213
Plant & Equipment		1,089	630	442
Right-of-Use Asset	4	13,533	12,823	12,541
Make Good Assets		111	56	64
Term Deposit		637	647	659
Intangibles	5	3,060	5,119	5,943
Deferred Expenses (Non-current)	2	-	321	719
Other Assets		26	31	31
Intercompany Loans		-	-	-
Total Non Current Assets		37,632	38,263	38,611
Total Assets		39,353	42,658	42,574
Current Liabilities				
Trade Creditors		818	935	689
Sundry Accruals		232	313	375
Other trade and payables		1,185	538	751
Lease Liability	4	1,315	815	808
Borrowings (current)	6	300	315	4,615
Unearned revenue (Current)	2	1,520	2,525	3,580
Leave Provisions (current)		439	527	609
Total Current Liabilities		5,809	5,968	11,426
Non-Current Liabilities				
Tax Liability		289	1,507	311
Lease Liability (non-current)	4	13,875	14,145	14,076
Borrowings (non-current)	6	7,282	8,348	4,557
Unearned revenue (non-current)	2	367	1,960	2,185
Leave Provisions		121	140	182
Other Provisions		842	537	268
Deferred tax liability		611	621	633
Total Non Current Liabilities		23,387	27,258	22,213
Total Liabilities		29,196	33,226	33,639
Net Assets		10,157	9,432	8,935

Source: Management/Historical Financial Statements

We note the following with respect to the financial position of XRG and key material balance sheet items:

1. Inventory primarily relates to hardware equipment used in the VR trainings Operator offers.
2. XRG recognises unearned revenue for both Entertainment and Enterprise Segments. Within the Entertainment Segment, the iFly and Freak business units sell gift vouchers with a three-year validity period. Unearned revenue is recorded at the time of the voucher payment is received. In the Enterprise Segment, Operator has secured several 36-month contracts with payments made in advance. As a result, XRG recognises unearned revenue at the time of payment and records the estimated cost of sales associated with the revenue as a Deferred Expense.
3. The indoor skydiving facilities were capitalised based on the construction costs, and Management has conducted annual impairment testing on these assets.
4. XRG adopts AASB16 which requires to recognise a lease asset and a corresponding lease liability for the property lease.
5. Intangibles are research and development conducted by Operator in relation to the VR simulation training.
6. The below table summaries total current and non-current borrowings as of 31 December 2024.

Lender (\$)	Dec-24
Smart Ease Commercial Loan	58,861
Birkdale Debt	4,513,196
Causeway Financial	4,600,000
Total	9,172,057

5.10 Financial Position – Entertainment Segment

We have been provided with a further detail of the Balance Sheet as at 31 December 2024, which estimates the specify assets and liabilities which are considered attributable to the Enterprise Segment. Accordingly, we have adopted and applied the following adjustments to estimate the financial position of the Entertainment Segment of XRG, as of 31 December 2024. Set out below is the pro forma balance sheet of the Entertainment Segment, with further detail on the adjustments applied outlined below the table.

xReality Group Limited						
Pro Forma Balance Sheet – Entertainment Segment						
\$'000s	Dec-24		Adjustments			Dec-24
	Actual	(a)	(b)	(c)	(d)	Pro Forma
Current Assets						
Cash	1,687	-	-	-	(738)	949
Debtors	889	-	-	-	-	889
Inventories	567	-	-	-	(545)	23
Trade and other receivables	121	-	-	-	(848)	(727)
Deferred Expenses (Current)	698	-	-	-	(698)	-
Other current assets	-	-	-	-	-	-
Total Current Assets	3,963	-	-	-	(2,830)	1,134
Non-Current Assets						
Indoor Skydive Facility	18,213	-	-	-	-	18,213
Plant & Equipment	442	-	-	-	-	442
Right-of-Use Asset	12,541	(12,541)	-	-	-	-
Make Good Assets	64	-	-	-	-	64
Term Deposit	659	-	(659)	-	-	-
Intangibles	5,943	-	-	-	(5,943)	-
Deferred Expenses (Non-current)	719	-	-	-	(719)	-
Other Assets	31	-	-	-	-	31
Intercompany Loans	-	-	-	-	-	-
Total Non Current Assets	38,611	(12,541)	(659)	-	(6,661)	18,750
Total Assets	42,574	(12,541)	(659)	-	(9,491)	19,883
Current Liabilities						
Trade Creditors	689	-	-	-	(49)	640
Sundry Accruals	375	-	-	-	-	375
Other trade and payables	751	-	-	-	(185)	566
Lease Liability	808	(808)	-	-	-	-
Borrowings (current)	4,615	-	-	(4,615)	-	-
Unearned revenue (Current)	3,580	-	-	-	(2,404)	1,176
Leave Provisions (current)	609	-	-	-	(144)	465
Total Current Liabilities	11,426	(808)	-	(4,615)	(2,783)	3,221
Non-Current Liabilities						
Tax Liability	311	-	-	-	-	311
Lease Liability (non-current)	14,076	(14,076)	-	-	-	-
Borrowings (non-current)	4,557	-	-	(4,557)	-	-

xReality Group Limited						
Pro Forma Balance Sheet – Entertainment Segment						
\$'000s	Dec-24	Adjustments				Dec-24
	Actual	(a)	(b)	(c)	(d)	Pro Forma
Unearned revenue (non-current)	2,185	-	-	-	(2,185)	-
Leave Provisions	182	-	-	-	(43)	139
Other Provisions	268	-	-	-	-	268
Deferred tax liability	633	-	-	-	-	633
Total Non Current Liabilities	22,213	(14,076)	-	(4,557)	(2,228)	1,351
Total Liabilities	33,639	(14,884)	-	(9,172)	(5,011)	4,572
Net Assets	8,935	2,343	(659)	9,172	(4,480)	15,311

Source: Management Information

We note the following adjustments with respect to determine the pro forma balance sheet of the Entertainment Segment.

- a) We exclude the lease asset and corresponding lease liability recognised under AASB 16 as they represent accounting adjustments rather than tangible assets for the purpose of valuation of XRG.
- b) XRG held term deposits totalling \$0.659 million. We consider the term deposits surplus to the business operations of the Entertainment Segment and removed in the pro forma balance sheet.
- c) Management advised that the borrowings were utilised to fund the operations of both the Entertainment and Enterprise Segments, making it infeasible to accurately allocate the borrowings between the two segments. As such, we have excluded the borrowings in the pro forma balance sheet of the Entertainment Segment. We have further analysed the implication of borrowings on the valuation of XRG in Section 8.4.
- d) Below is a list of assets attributed to the Enterprise Segment as advised by Management:
 - Various cash accounts related to Operator and Red Cartel totalling \$0.74 million;
 - Trade debtors totalling \$0.848 million out of total trade debtors of \$0.850 million;
 - VR hardware equipment valuing at \$0.545 million;
 - Total unearned revenue of \$4.59 million and total deferred expense of \$1.4 million associated with the prepaid US contracts;
 - Intangible research and development assets;
 - Trade creditor and other current liabilities totalling \$83,797.

We note that Management is unable to provide accurate allocation of leave provisions, superannuation payable and PAYG withholding payable between the Entertainment and Enterprise Segments. To estimate this allocation, we assessed the proportion of employee expenses for each segment based on the total employee costs incurred by iFly, Freak, and Operator Consolidated. The resultant weighting applied to the Enterprise Segment is 23.7%. The total unallocated employee liabilities are approximately \$1.427 million. The amount attributable to the Enterprise Segment is \$337,887.

Based on the above we exclude a net asset of -\$4.48 million attributed to the Enterprise Segment to determine the pro forma balance sheet of the Entertainment Segment.

6. Birkdale and the Birkdale Debt

6.1 Birkdale Overview

Birkdale Holdings is a privately held proprietary company controlled by Steve Baxter ("**Mr Baxter**"), which has been a long-term shareholder of XRG since its initial IPO in January 2013, initially holding 15 million shares in XRG (or a 25.52% ownership interest) at the time.

As at the date of this Report, Birkdale holds 99,638,163 shares in XRG (representing 17.45% of the issued capital of the Company), as set out in Section 5.2 above.

Mr Baxter is an Australian venture capital investor and entrepreneur, with a focus on innovation and technology. He was previously featured on Shark Tank Australia from 2015 to 2019 and has founded and exited a number of companies. He founded TEN13, a tech startup investing platform as well as Beaten Zone Venture Partners, a venture capital fund dedicated to investments in Australian sovereign legal defence technology.

6.2 Birkdale Debt

Per the 1H2024 Financial Report of the Company, the Birkdale Debt outstanding was \$4.513 million as at 31 December 2024, with a maturity date of September 2027. Based on the 5 March Announcement, the outstanding amount on the current facility with Birkdale is projected to be approximately \$4.628 million as at 30 April 2025.

We note the following with respect to the Birkdale Debt:

- Per the Loan Agreement dated 17 March 2021, the interest rate for the loan facility is 7.5% per annum, accruing daily on the outstanding principal amount of the Loan.
- The Original Loan Agreement was amended on 2 July 2019, giving Birkdale the right (but not obligation) to convert the balance of the Birkdale Debt into fully paid ordinary shares in the Company.
- The 17 March 2021 amendment stated that this conversion will occur at a conversion rate representing a 45% discount to the volume-weighted average price ("**VWAP**") of the Company's ordinary shares on the conversion date.
- Per the 5 March Announcement, the Company has agreed with Birkdale to convert the sum of the expected outstanding debt as at 30 April 2025, being \$4.628 million, to new ordinary shares to be issued by the Company at \$0.05 per share.

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7. Valuation Methodology

7.1 Overview

The best determinant of value is the price at which a business or a comparable business has been bought or sold in an arm's length transaction. In its absence, estimates of value are made using methodologies that infer value from other available evidence. These methodologies are discussed below.

7.2 Asset Based Methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- **Net assets & net tangible assets:** Net assets method is based on the value of the assets of the business less certain liabilities, at book values, adjusted to market value, while the Net Tangible Assets ("NTA") of the business is a similar calculation but with an additional adjustment to exclude intangible assets from the calculation;
- **Orderly realisation of assets:** Orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders assuming the company is wound up in an orderly manner realising a reasonable market value for assets; and
- **Liquidation of assets:** Liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter period, under a "distressed seller" scenario.

These approaches ignore the possibility that a company's value could exceed the realisable value of its assets. Asset based methods are appropriate when companies are not profitable (and are not expected to be profitable in the short to medium term), not actively trading or a significant proportion of a company's assets are liquid or held in investments that could be realised, or the business achieves lower profits than typical returns required by equity holders.

Asset based methods are typically considered in valuing asset heavy businesses, loss making companies, or companies where the capitalisation of their earnings is significantly less than the net realisable value of their assets.

7.3 Market Based Methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- **Analysis of a company's recent share trading history (Quoted Share Price Approach):** Most recent share trading history provides strong evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market, under the Efficient Market Hypothesis. Importantly to rely on this methodology, a company's shares require sufficient liquidity;
- **Capitalisation of maintainable earnings (Future Maintainable Earnings Approach):** Capitalisation of maintainable earnings method estimates fair market value by multiplying the company's future maintainable earnings by an appropriate capitalisation multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable and comparable companies have similar cost structures. This methodology is used for trading companies and is typically not applicable for listed investment companies;
- **Capitalisation of revenue (Revenue Multiple Approach):** Capitalisation of revenue estimates fair market value by multiplying the company's maintainable revenue by an appropriate capitalisation multiple. An appropriate revenue multiple is derived from market transactions involving comparable companies. It is a method commonly used for valuing early stage and high-growth businesses before the profit-making phase of operations. This methodology involves capitalising the revenue of a business at a multiple that reflects the risks of the business and its growth pattern; and

- **Industry specific methods:** Industry specific methods estimate market value using industry benchmarks. These methods generally provide less persuasive evidence on the market value of a company, as they may not account for company specific factors. Industry specific methods are only used as a cross check to the primary valuation methodology.

7.4 Discounted Cash Flow Method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their present value. This method is appropriate where a projection of future cash flows can be made with a reasonable degree of confidence for a period of at least 5 years. The discounted cash flow method is commonly used to value early-stage companies; projects with a finite life; or businesses with comprehensive and reliable cash flow forecasts.

7.5 Selection of Methodologies

RG111 outlines the appropriate methodologies that an expert should consider when valuing assets and securities. These methodologies are:

- the discounted cash flow method and the estimated realisable value of any surplus assets;
- the application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets. This is the Future Maintainable Earnings Approach;
- the amount that would be available for distribution to security holders on an orderly realisation of assets. This is using Asset Based Method;
- the quoted price for listed securities, when there is a liquid and active market; and
- any recent genuine offers received by the target for the entire business.

RG 111 does not prescribe any above methodologies as the method that should be used in the independent expert report. An expert would consider the valuation theory and available information to decide on the most appropriate methodologies in valuing the entity or the asset based on an expert's skill, judgement and after considering the unique circumstances of the entity or asset being valued.

As such, we also consider the appropriateness of a capitalisation of revenue methodology, which is based on the application of revenue multiples to estimated future maintainable revenues of the entity. The approach is commonly adopted in high growth technology-based business and those with early-stage operations where the business is yet to generate positive earnings or is capable of reliable cash flow forecasts.

Our selection of the valuation methodology is guided by RG111 and we have considered the following in selecting our valuation methodology to value an existing XRG share and the consideration offered:

- existing trading operations of XRG;
- the historical results and current performance levels including revenue and earnings of both the Entertainment and Enterprise segments of the Company;
- share price and volumes traded for XRG shares on the ASX;
- representations by management in terms of the current and future trading performance of the underlying businesses held by XRG, and strategic direction of XRG;
- our understanding of the competitive position of each business in XRG as set out in Section 5.1 above in their respective industries;
- access to publicly available valuation benchmarks, comparable company information and comparable company transactions.

As a publicly listed security on the ASX, one available methodology is a market-based valuation using the recent share price trading history of quoted shares.¹³ We have considered this methodology not appropriate for determining the market value of the shares in XRG. As set out further in Section 8.5, we consider there is insufficient liquidity in the

¹³ RG 111.69 states that an expert should consider "the quoted price for listed securities, where there is a liquid and active market".

recent share trading history of XRG to rely on this methodology to determine the value of shares after considering the following factors:

- The level of free float of XRG is low, given as the largest shareholder holds 17.5% of the issued share capital, with top 20 shareholders collectively hold more than 52% of the shares on issue.
- In the last six months of trading, while 20.4% of shares were traded, we note 6.0% was traded in one day when the Company announced it was awarded a contract to deliver a new immersive training capability to the United States Department of Defense. In the last 1 month prior to the 5 Mar Announcement, only 1.2% of shares were traded. Refer to Section 8.5 for further detail.
- In our view, a liquid stock would typically be characterised by having 25%-50% of its total shares being traded over the course of a year, or about 0.5%-1.0% per week.

Therefore, we consider the liquidity is insufficient for the Quoted Share Price approach ("QSP") of XRG shares to be a primary valuation methodology and definitive indicator of their value and consider it prudent to utilise other methodologies with the QSP being considered a potential cross-check only.

We consider that the use of a discounted cash flow methodology is not appropriate due to the lack of available forecast cash flows, and the inherent uncertainty with respect to the timing and probability that XRG will acquire new customers and continue to grow the Operator business (which forms part of the Enterprise segment).

Given the four businesses and two business segments which comprise the XRG business as set out in Section 5.1 above, we have adopted a 'Sum of the Parts' approach to value the Company. Our approach separately values the Entertainment Segment and Enterprise Segment of the Business, then combines these valuations to arrive at our assessed valuation of the Company as a whole.

We have adopted the Capitalisation of Revenue Approach based on the revenue of the Enterprise Segment as our primary valuation methodology. The following factors in our view render a revenue multiple approach the most appropriate to assess the fair market value.

- Revenue multiples are frequently used as a valuation metric for companies such as XRG and other technology-based business which are yet to generate positive earnings or for software business with a SaaS¹⁴ revenue model, both of which generate high levels of revenue growth as the business scales and expands into new markets, however are yet to achieve cash or accounting breakeven;
- The Operator business of XRG has not consistently generated positive earnings in recent years. The value of businesses with such characteristics is driven by their growth potential and capacity to increase market share as opposed to earnings generation and dividend distribution.

We have adopted an asset-based approach using Net Assets as our primary methodology to determine the value of the Entertainment Segment. We have considered the reported Balance Sheet of the Company as a whole and adjusted for the assets not associated with the iFly and Freak businesses, to determine the value of this segment of the Company. The following factors in our view render an asset-based approach the most appropriate to assess the fair market value:

- Significant capital investment has previously been made to construct the iFly facilities which are licenced from the technology and operations of iFly Holdings, as represented by the carrying value of Plant and Equipment relating to indoor skydive facility of \$18.2 million as at 31 December 2024.
- The Freak business does not generate positive earnings, thus an earnings-based approach cannot be applied.

While the capitalisation of future maintainable earnings methodology is a commonly utilised methodology, we do not consider the application of this methodology as appropriate in the valuation of XRG, given the more appropriate methodologies to separately value the Entertainment Segment and Enterprise Segment of the Business as set out above.

¹⁴ Software as a service

8. Value of XRG

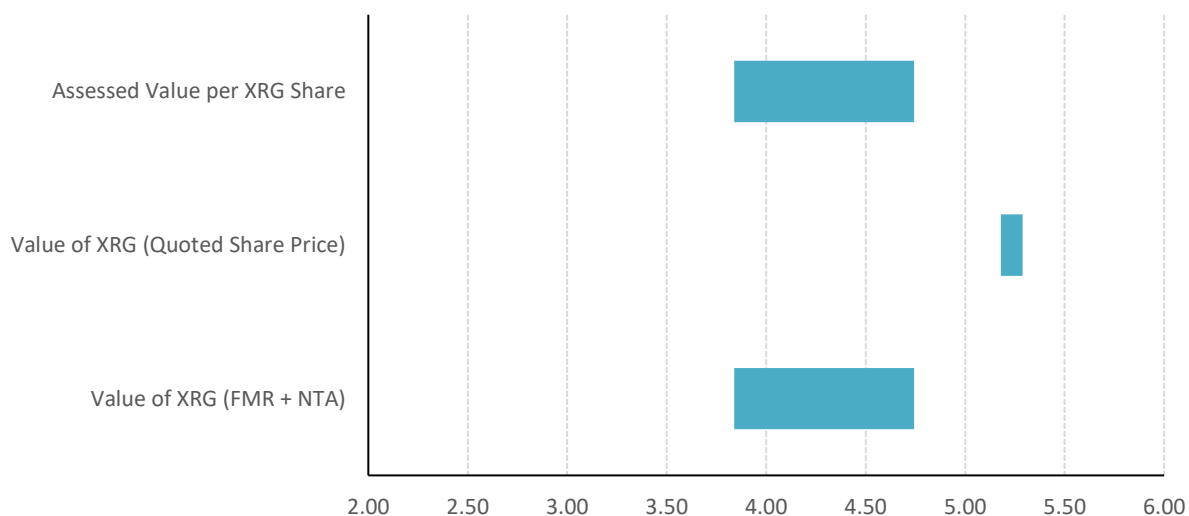
8.1 Valuation Summary

We have determined the market value of an ordinary share in XRG on a controlling interest basis to be 3.02 to 3.71 cents per share prior to the Proposed Transaction. In determining this range of value, we specifically relied upon the results of two methodologies, as summarised below.

xReality Group Limited Equity Value Summary		
Cents per share	Low	High
Sum-of-the-Parts (Combined Revenue Multiple & NTA) Approach		
Value per XRG share on a Controlling Basis (cents per share)	3.84	4.74
Market-Based Valuation – Quoted Share Price (QSP)		
Value per XRG share on a Minority Basis (cents per share)	3.98	3.98
Add: Control Premium	30%	30%
Value per XRG share on a Controlling Basis (cents per share)	5.18	5.18
Assessed Value of XRG on a Controlling Basis (cents per share) prior to the Proposed Transaction	3.84	4.74

Source: Titan Partners Corporate Finance Analysis

XRG Shares Valuation Summary



The remainder of this section sets out our assessment of the above values for XRG shares.

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8.2 Valuation of Enterprise Segment – Capitalisation of Revenues

We have assessed the value of XRG Enterprise on a controlling basis using a capitalisation of revenue methodology.

In determining the asset value of XRG Enterprise, we have relied on management information with respect to the performance of the Company as at the announcement of the Proposed Transaction, being 5 March 2025. Such information encompasses the financial performance of XRG for the 6 months to 31 December 2025, as disclosed to the ASX on 5 March 2025.

Set out below is our valuation assessment of XRG Enterprise using capitalisation of revenue methodology.

xReality Group Limited – Enterprise Segment			
Enterprise Value (Controlling Basis)			
\$'000s	Notes	Low	High
Adopted Revenue	1	3,600	4,227
Assessed Revenue Multiple (Controlling Basis)	2	4.20x	4.80x
Enterprise Value (Controlling Basis)		15,120	20,289

Source: XRG Management Information, Titan Partners Corporate Finance Analysis

We note the following with respect equity value of XRG Enterprise above:

1. XRG disclosed in its Investor Presentation dated 5 March 2025 that the Enterprise segment's annual recurring revenue was \$3.6 million in 1H2025. Given annual recurring revenue is, by definition, maintainable, we consider \$3.6 million to be a conservative estimate of the future maintainable revenues of XRG Enterprise. Accordingly, for our low range estimate of future maintainable revenue, we adopted the 1H2025 ARR of \$3.6 million.

In the same announcement to the market on 5 March 2025, XRG released its 1H2025 actual operating results which disclosed circa \$2.1 million of revenue attributable to the Enterprise segment, as set out in Section 5.8 above. We consider that, in the absence of management forecasts publicly disclosed to shareholders, the annualised 1H2025 revenue ("FY2025P"), being \$4.3 million, is an appropriate conservative estimate of the future maintainable revenues of the Enterprise segment. Accordingly, for our high range estimate of future maintainable revenue, we adopted the FY2025P revenue of \$4.3 million¹⁵.

2. The selection of a multiple takes into account the unique features of XRG Enterprise, including its business profile, assessed risks and the industry within which it operates. As set out in Section 8.2.1 below, our assessed revenue multiple range applicable to the XRG Enterprise segment is 4.2 to 4.8 times revenue.

We have determined the enterprise value of XRG Enterprise on a controlling interest basis is \$15.120 million and \$20.289 million.

8.2.1 Revenue Multiple

The multiple applied in the valuation of a business under the capitalisation of revenue approach takes into account the unique features of that business, including its business profile, assessed risks and the industry within which it operates. The selection of an appropriate multiple for the Enterprise segment of XRG ("XRG Enterprise") is a matter of professional judgement. In determining the applicable multiple, we have had regard to a combination of factors including but not limited to:

- The specific risk of the XRG Enterprise business, including the current size of operations and competitive environment.
- Scale of operations with regards to both domestic and international exposure.

¹⁵ We note based on the current growth rate of the Enterprise segment and contracted future revenues, that the revenue for FY25 should exceed \$4.3 million.

- The level of diversification in the product and services offerings of XRG Enterprise.
- Current and future prospects of the segment's operations.

To assist the selection of this multiple, we have examined the implied multiple on completed transactions of businesses we consider are comparable to the Company. Our criteria for identifying comparable transactions were those which operate in the simulation (including XR and VR) and training software industry, being similar to the current offerings of XRG Enterprise. We have only considered those transactions involving a majority interest and a change in control of the target company from the selected transactions, thus the resulting transaction multiples are inclusive of a control premium.

Our analysis identified 7 comparable transactions which we consider to be relevant in forming our view on an applicable revenue multiple for XRG Enterprise. The implied revenue multiple of transactions in our basket averaged at 3.8 times revenue, ranging from 1.1 times to 6.8 times. We also note the median implied revenue multiple of transactions in our basket was 3.7 times, which is consistent with the average of 3.8 times. Further details on the comparable transactions we have identified are set out in Appendix 6.

Amongst the basket of comparable transactions, the target companies vary in size from an enterprise value of approximately \$101 million to in excess of \$19 billion. We considered five transactions in particular to be most comparable to XRG Enterprise, where the average implied multiple was 4.2 times revenue, and the median implied multiple was 4.8 times, albeit comprising a broad range as summarised in the following table.

xReality Group Limited – Enterprise Segment Most Comparable Transaction Multiples						
Announced Date	Target	Acquirer	Sought %	Enterprise Value (m)	Revenue Multiple	EBITDA Multiple
28/06/2023	ESI Group SA	Keysight Technologies, Inc.	51%	746.5	6.8 x	66.6 x
08/05/2021	Cornerstone OnDemand	Clearlake Capital Group	92%	7,042.4	6.3 x	26.9 x
25/06/2020	Vricon, Inc.	Maxar Technologies Inc.	50%	172.4	4.8 x	7.7 x
12/10/2018	L3 Technologies	Harris Corp.	100%	19,723.0	2.0 x	14.7 x
23/09/2019	Arotech Corporation	Greenbriar Equity Group, L.P.	100%	101.0	1.1 x	19.8 x
Average					4.2 x	24.7 x
Median					4.8 x	14.7 x

Source: S&P Capital IQ

We note the following with respect to the above five most comparable companies:

- ESI Group SA (“**ESI Group**”) designs, develops, and distributes virtual prototyping software solutions in Europe, the Middle East, Africa, the Asia Pacific, and the Americas. It also provides SimulationX, a single platform for modelling, simulating, and analysing technical systems serving the aerospace, defence, naval, automotive and land transport, energy, ground transportation, heavy machinery industries. Approximately 50.6% of the Group was acquired in June 2023 for \$746 million implying an enterprise value of circa \$1.5 billion. Whilst XRG Enterprise offers products and services similar to ESI Group, being the provision of simulation systems to clients globally, we note that ESI Group's operations are of a significantly larger scale and services a wider range of industries than XRG Enterprise. As such, we expect the capitalisation multiple range of XRG Enterprise to be lower than that of ESI Group, being 6.8 times.
- Cornerstone OnDemand, Inc (“**COD**”) delivers global learning and people development solutions through a software-as-a-service (SaaS) model. Its offerings encompass learning and development, performance management, recruitment and onboarding, workforce analytics and reporting, as well as strategic workforce planning. We note that whilst COD is larger in scale than XRG Enterprise and does not explicitly operate as a provider of XR or simulations, its SaaS business model and focus on training & development is comparable to XRG Enterprise. Given its significantly smaller scale and less diversified service offering, we expect the capitalisation multiple range of XRG Enterprise to be lower than that of COD, being 6.3 times.

- Vricon, Inc. (“**Vricon**”) develops and delivers 3D geodata and visualisation solutions that enable imagery content to represent various visible objects on the Earth in 3D. The company offers its solution for intelligence analysis, military operations, telecom, and emergency response applications. 50% of the shares in Vricon, Inc. were acquired in June 2020 for approximately \$172 million, implying an enterprise value of circa \$378 million. We note that XRG Enterprise is significantly smaller in scale than Vricon and services a narrower market, being the law enforcement industry. As such, we expect the capitalisation multiple range of XRG Enterprise to be lower than that of Vricon, being 4.8 times.
- L3Harris Technologies, Inc. (“**L3Harris**”) delivers mission-critical solutions globally across four segments: Integrated Mission Systems (ISR, electronic warfare, and advanced combat systems), Space and Airborne Systems (space payloads, avionics, and mission networks), Communication Systems (tactical radios, satellite terminals, and public safety equipment), and Aerojet Rocketdyne (propulsion and armament systems). Similar to XRG Enterprise, L3Harris also offers a selection of highly customisable training services and simulation experiences for varying levels of skill, experience, budget and physical deployment requirements. We note that whilst L3 Harris is larger in scale than XRG Enterprise, the year-on-year revenue growth in the acquisition year (2018) for L3Harris was approximately 7%, which is considerably lower than the growth achieved by XRG Enterprise of circa 193% between FY2024 and 1H2025 and 487% between FY2024 and FY2025 annualised. As such, we expect the capitalisation multiple range of XRG Enterprise to be higher than that of L3Harris, being 2.0 times.
- Arotech Corporation (“**Arotech**”) provides defence and security products worldwide. The company develops, manufactures, and markets multimedia and interactive digital solutions for engineering, use-of-force training, and operator training of military, law enforcement, security, emergency services, and other personnel. Arotech also offers simulators, systems engineering support, and software products for training vehicle operators to the United States military and part-task simulators to train aircrew. We note that whilst Arotech is larger in scale than Orbx, the forward revenue multiple for Arotech implied revenue growth of approximately 16%, which is considerably lower than the growth achieved by XRG Enterprise of circa 193% between FY2024 and 1H2025 and 487% between FY2024 and FY2025 annualised. As such, we expect the capitalisation multiple range of XRG Enterprise to be higher than that of Arotech, being 1.1 times.

In addition to the above identified transactions, we have considered the current trading revenue multiples of Australian listed comparable companies. We note that there are currently no directly comparable business to XRG listed on the ASX, hence we have broadened our criteria to incorporate those technology companies with simulation/training features or a focus on the defence sector. Summarised below are the trading multiples of potentially comparable companies. We have set out a brief description of each comparable trading company and the relevant divisions or product segments which are comparable to XRG Enterprise in Appendix 7.

xReality Group Limited - Enterprise Segment Comparable Trading Multiples			
Company	Market Cap (\$m)	Enterprise Value (\$m)	Revenue Multiple Current LTM
L3Harris Technologies, Inc. (NYSE:LHX)	63,017	82,820	2.4 x
Northrop Grumman Corporation (NYSE:NOC)	114,178	135,998	2.0 x
General Dynamics Corp (NYSE:GD)	114,349	128,655	1.7 x
Textron Inc (NYSE:TXT)	21,494	25,593	1.1 x
Vection Technologies Limited (ASX:VR1)	35	41	1.2 x
Nextech3D.AI Corporation (OTCQB:NEXC.F)	9	13	3.6 x
CAE Inc (TSX:CAE)	12,928	16,757	3.3 x
Byrna Technologies, Inc. (NASDAQCM:BYRN)	639	603	4.5x
Rheinmetall AG (XTRA:RHM)	98,666	101,393	6.0 x
Average (Minority Basis)			2.9 x
Median (Minority Basis)			2.4 x

Source: S&P Capital IQ

We note that the trading multiples outlined above vary widely from 1.1 times to 6.0 times but have a relatively minimal standard deviation of 1.6 times from the average of 2.9 times, where these multiples are on a minority interest basis being representative of trading on a public exchange. Inclusive of a 30% control premium (refer to Section 9.2 below), these trading multiples on a controlling basis have an average of 3.8 times and a median of 2.9 times.

We note that across our assessed group of 7 comparable transactions (set out in Appendix 6), smaller transactions generally attract a smaller multiple than their larger counterparts. We observed larger businesses typically provide a broader range of services, operate in a wider range of geographical markets and across market segments such as defence, aviation, space exploration and automotive, or Government and private customers.

Given the current size of XRG Enterprise, the range of services offered and the current industry outlook, we have determined that a multiple range of 4.2 to 4.8 times is most applicable for XRG, being the median and average implied multiple of our most comparable transactions. While our selected multiple range is slightly above the average and median trading multiples of our listed comparable companies set out above, after applying the 30% control premium (refer to Section 9.2 below), we consider the most comparable transactions are superior comparable businesses in forming our view of a current valuation multiple for XRG. We note a minority discount, being the inverse of a control premium would apply, in converting a controlling basis valuation to the minority interest basis of value.

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8.3 Value of Entertainment Segment – Net Asset Approach

We have assessed the value of XRG Entertainment on a controlling basis using an asset-based methodology.

In determining the asset value of XRG Enterprise, we have relied on management information with respect to the financial position of the Company as at the announcement of the Proposed Transaction, being 5 March 2025. Such information encompasses the financial position of XRG for the 6 months to 31 December 2024, as disclosed to the ASX on 5 March 2025.

Set out below is the summarised net asset position of the Entertainment segment at 31 December 2024. Refer to Section 5.10 for further information.

xReality Group Limited Historic Reported Balance Sheet	
\$'000s	Dec-24 Pro Forma
Current Assets	1,132
Non-Current Assets	18,751
Total Assets	19,883
Current Liabilities	3,222
Non-Current Liabilities	1,350
Total Liabilities	4,572
Net Assets	15,311

Source: Management/Historical Financial Statements

Under an asset-based approach, the net assets of a business represent its enterprise value as they reflect the total value of the company's operating assets, net of liabilities, required to generate business operations. This approach assumes that the value of the business is driven by the fair value of its underlying assets and their capacity to generate future cash flows. As enterprise value represents the total value attributable to both debt and equity holders, the net assets effectively reflect the overall value of the business.

Accordingly, we have determined the enterprise value of XRG Entertainment on a controlling interest basis is \$15.311 million.

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8.4 Value of XRG – Sum of Parts

We have assessed the value of XRG using a sum-of-parts approach whereby the Enterprise segment was valued using the capitalisation of revenue methodology and the Entertainment segment was valued using a net asset-based approach.

In determining the equity value of XRG, we have added the enterprise value of XRG Enterprise and XRG Entertainment and adjusted for interest bearing debt, along with assets and liabilities that are considered surplus to the operational needs of XRG.

Set out below is our valuation assessment of XRG using the sum-of-parts approach.

xReality Group Limited Equity Value (Controlling Basis)			
\$'000s	Notes	Low	High
Enterprise Value – XRG Entertainment	1	15,311	15,311
Enterprise Value – XRG Enterprise	2	15,120	20,289
Enterprise Value (Controlling Basis)		30,431	35,600
Add: Surplus Asset	3	659	659
Less : Interest Bearing Debt	4	(9,172)	(9,172)
Equity Value (Controlling Basis)		21,918	27,087
Number of Shares Outstanding (thousands)	5	570,982,276	570,982,276
Value per Share (cents)		3.84	4.74

Source: XRG Management Information, Titan Partners Corporate Finance Analysis

We note the following with respect equity value of XRG above:

1. Enterprise Value of XRG Entertainment as set out in Section 8.3 above.
2. Enterprise Value of XRG Enterprise as set out in Section 8.2 above.
3. Per the Balance Sheets summarised in Sections 5.9 and 5.10 above, we note that XRG hold term deposits with Commonwealth Bank of Australia totalling approximately \$659k at 31 December 2024. As the term deposits are held with a term longer than 12 months, we consider that they do not form part of working capital and are excess to XRG's operating requirements. As such, we add the value of the term deposits to the Enterprise Value of XRG in the calculation of the equity value of XRG.
4. Per the Balance Sheets summarised in Sections 5.9 and 5.10 above, we note that XRG has borrowings totalling approximately \$9.172 million at 31 December 2024, from Smart Ease, Birkdale Holdings and Causeway Financial. The borrowings are a debt item of XRG and we have accordingly adjusted for it when determining the equity value of XRG.
5. Total number of shares outstanding immediately prior to completion of the Proposed Transaction, as set out in the 5 March Announcement.

We have determined the equity value of XRG on a controlling interest basis is 3.84 cents and 4.74 cents per share.

8.5 Quoted Share Price Valuation

In addition to the assessment of the value of XRG shares above based on the Revenue Multiple approach, we have reviewed the value of XRG shares on a minority basis using a quoted share price approach by analysing the recent share price and applying a control premium to derive the value of an XRG share on controlling basis. The market value of a company's shares as quoted on public exchange such as the ASX is reflective of a minority interest. Typically, a minority interest does not have significant control for the holder to have influence in the operations and value of that company. RG111.11 states that when considering the value of a company's shares for the purposes of a takeover bid, the expert should assume 100% ownership of the target and it is inappropriate to apply a discount for a minority or portfolio parcel of shares. Accordingly, a premium for control is expected to be paid by the purchaser of those shares due to advantages they will receive should they obtain control of the company. These advantages can include:

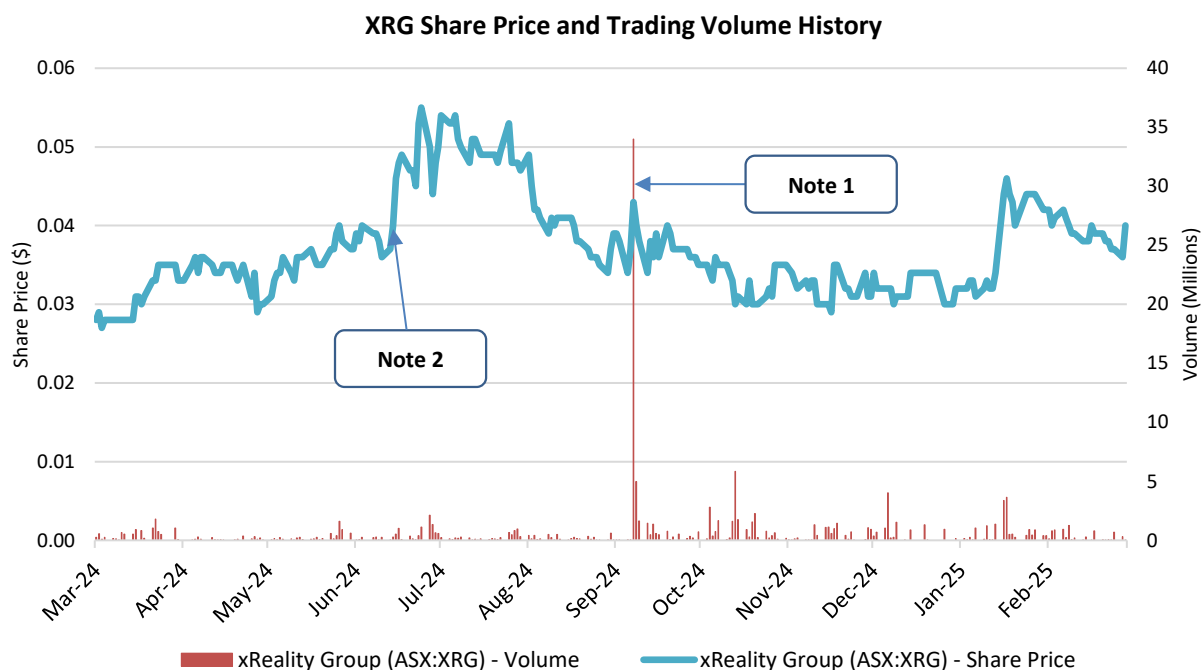
- Control over operational decision making and the strategic direction of the company;
- Ability to deal with the company assets as the purchaser sees fit;
- Access to underlying cash flows through control over dividend policies; and
- Potential access to accumulated tax losses.

Based on the requirements of RG111, we have calculated the market price of a XRG share by including a premium for control. Firstly, we calculated the quoted market price on a minority interest basis based on share prices quoted on the ASX, then added a premium for control to calculate the market price value on a controlling basis.

Quoted Share Price – Minority Interest Basis

The determination of a market price of a listed share is typically based on the share price prior to the announcement of a transaction. The ASX announcement of the Proposed Transaction was released on 5 March 2025, hence our analysis is as of 4 March 2025, being the day before the 5 March Announcement.

To determine whether recent share price is an appropriate methodology to value XRG shares, we analysed the recent share trading history and specifically the liquidity in respect of the trading in those shares. Set out below is the trading performance of XRG shares for the twelve months to 4 March 2025. XRG shares are regularly traded on the ASX, with trades being recorded on 237 days during the 365-day period, although on most days the traded volume is low. The following chart summarises the share price movements and volume traded over the year to 4 March 2025.



For the 12 months to 4 March 2025, the closing price of XRG shares has ranged from a low of \$0.027 on 7 March 2024 to a high of \$0.055 on 28 June 2024. During this period several announcements were made to the market. The announcements for the 6 months to 5 March 2025 are set out in Section 5.3 and a full list of all announcements for the 12 months to 5 March 2025 are set out at Appendix 5. We note the below with respect to the observed trading history:

1. The trading volume on 11 September 2024 was substantially greater compared to the rest of the 12-month period to 4 March 2025 with 6% of the shares traded in a single day. We note the Company announced it was awarded a \$5.6 million contract to deliver a new immersive training capability to the United States Department of Defense.
2. From 14 June 2024 to 28 June 2024 the XRG share price increased 45% from \$0.036 to \$0.055. This coincided with an ASX Release on 13 June 2024 announcing XRG had secured an additional \$500,000 working capital funding through its senior debt holder, Causeway Financial, to be used to provide inventory in the United States markets.

At the close of trading on 4 March 2025, being the last trading day of XRG shares on the ASX prior to the 5 March Announcement with respect to the Proposed Transaction, the XRG share price was \$0.040.

Given the observed movements in the XRG share price around the announcement of the Proposed Transaction, we calculated and assessed the volume weighted average price ("VWAP") of the shares over a period of 1, 3, 6 and 12 months prior to the announcement date of 5 March 2025. The following tables summarises our VWAP calculations for each of these periods.

xReality Group Limited VWAP Analysis						
Period	Volume (Shares)	Volume (% of issue)	VWAP \$	Price (Low)	Price (High)	Days Traded
1 Month (4 February 2025 to 4 March 2025)	7,107,334	1.2%	0.0398	0.04	0.04	20
3 Months (4 December 2024 to 4 March 2025)	35,142,347	6.2%	0.0377	0.030	0.046	54
6 Months (5 September 2025 to 4 March 2025)	115,849,898	20.4%	0.0376	0.029	0.046	115
12 Months (5 March 2024 to 4 March 2025)	153,943,582	27.1%	0.0383	0.027	0.055	237

Source: S&P Capital IQ, Titan Partners Corporate Finance Analysis

To rely upon the ASX listed share price as a primary methodology as an indication of market value, there needs to be a 'deep' market in the shares. RG111.86 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- 1) Regular trading in a company's securities;
- 2) Approximately 25% to 50% of a company's securities are traded on an annual basis;
- 3) There must be a sufficiently large spread of shareholders to enable the shares to trade on the stock exchange in an orderly manner; and
- 4) There are no significant but unexplained movements in share price.

In our opinion, the trading of XRG's shares does not meet the above criteria of a 'deep' market, therefore we utilised this market-based valuation methodology as a cross-check to the alternate approaches as set out above. Based on our analysis of the share trading history of XRG and with reference to the above characteristics, we note;

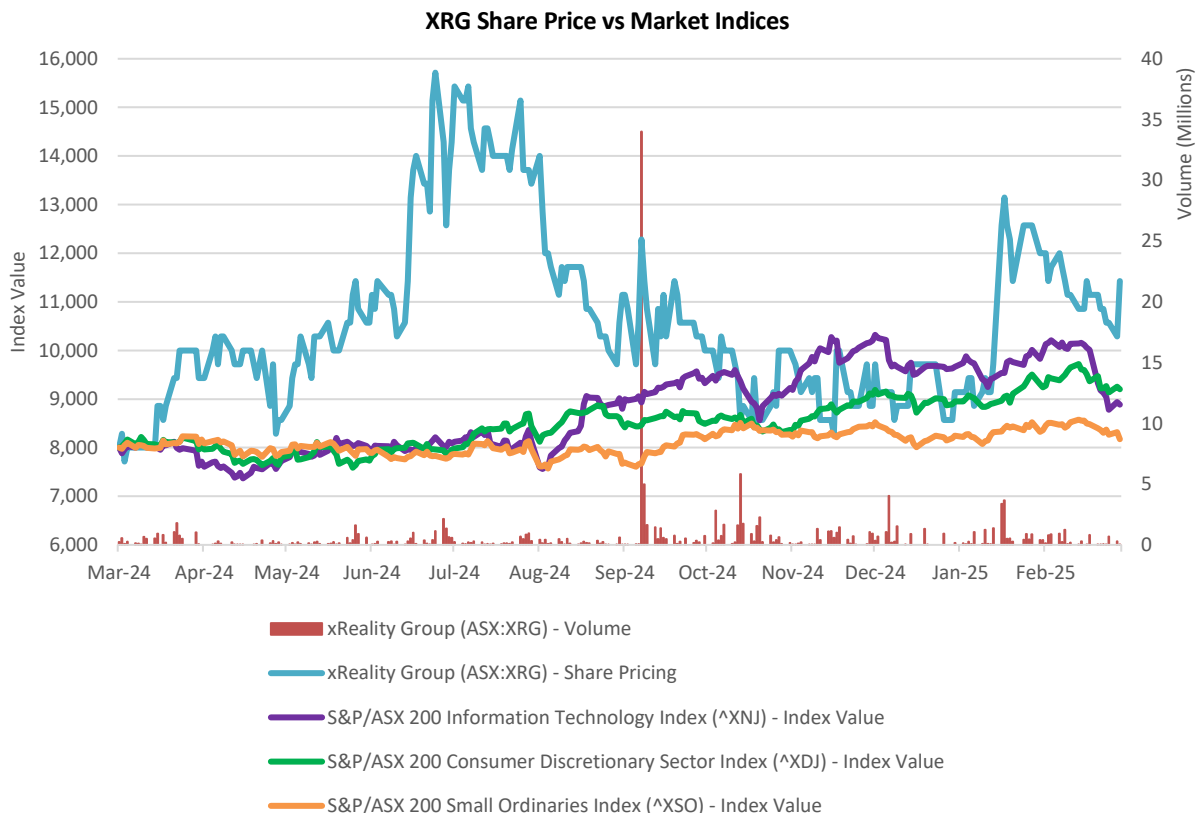
- 1) Approximately 27.1% of XRG shares on issue have traded over a twelve-month period to 4 March 2025 and 20.4% of the Company's shares on issue have traded over a six-month period to 4 March 2025. However, in

the first 6 months from 5 March 2024 to 5 September 2024, 6.7% of shares were traded compared to 20.4% in the preceding period. Thus, XRG's shares have not regularly been traded.

- 2) As set out in Section 5.2, 52.2% of shares on issue are held by the top 20 shareholders and 17.5% are held by the largest shareholder, Birkdale. In our opinion there is not a sufficiently large spread of shareholders, where one shareholder holds a significant stake.
- 3) On 11 September 2024 the Company was awarded a \$5.6 million contract with the United States Department of Defense. We note that on this date, a total of 6.0% of the shares outstanding were traded in one day, whereas in the 6 months prior to the 5 March Announcement, 20.4% of shares were traded, and in the 1 month prior to the 5 March Announcement, 1.2% of shares were traded.
- 4) We consider the VWAP calculated over periods longer than 3-months not reflective of the value of XRG shares prior to the announcement of the Proposed Transaction. This is by virtue of the continuing developments in the Company, particularly with respect to the Operator business. Since the announcement of FY2024 results, the Company has experienced a number of events likely to have a material impact to the share price, including securing the US Department of Defense contract, issuance of new securities and announcement of 1H2025 performance.

Based on the analysis above and given the share price of XRG shares, we have determined the value of XRG shares, based on quoted market pricing, is \$0.0398 (being the 1-month VWAP to 4 March 2025). This value, by definition, represents the value of shares on a minority basis.

Below is share price of XRG over the 12 months to the 5 March Announcement in comparison to the S&P ASX Small Ordinaries Index, S&P ASX 200 Consumer Discretionary Index and S&P ASX 200 Information Technology Sector.



Source: S&P Capital IQ, Titan Partners Corporate Finance Analysis

Control Premium

As discussed above, we are required under RG111 to assess the Proposed Transaction assuming 100% ownership of XRG. Accordingly, a premium for control must be applied, which reflects the additional value that attaches to a controlling interest in the Company over a minority or portfolio interest as represented by the share price.

As set out in Section 9.2 below, we have determined an appropriate control premium to be applied of 30% to the minority value of XRG shares.

Valuation – Controlling Basis

We applied the above control premium to our assessed value of XRG shares on a minority basis, to derive the value per share on a controlling basis as set out below.

xReality Group Limited	
Valuation per Share (Controlling Basis) – Quoted Share Price Approach	
Cents per share	
Value per Share on a Minority Basis	3.98
Control Premium	30%
Value per Share on a Controlling Basis	5.18

Source: Titan Partners Corporate Finance Analysis

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8.6 Assessed Valuation of XRG Shares

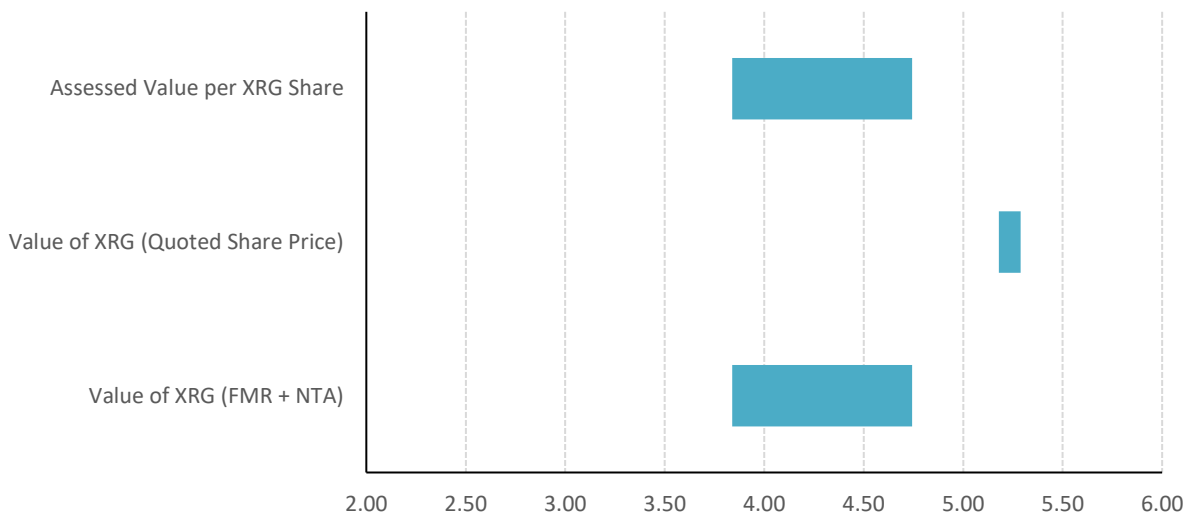
Based on our analysis set out in Sections 8.2 to 8.5 above, we have assessed the value of the XRG shares, on a controlling basis using a combination of both the sum-of-parts and QSP approaches. In forming our conclusion on the assessed valuation range for XRG shares, we have considered our findings set out above and in particular:

- 1) The share price of XRG on both a VWAP and daily closing price basis has exhibited no identifiable trend over the 12 months to 5 March 2025, while the broader market (as measured by the S&P ASX Information Technology Index) has risen 11.02% over the same period respectively, as illustrated in Section 8.5 above.
- 2) While the share price represents market pricing of XRG shares and the amount at which shareholders can realise their interests in the Company, its value is not equivalent to the fundamental value of the Company and accordingly cannot be solely relied upon in forming a view on the value of XRG shares. In particular, we do not consider the VWAP calculated under our quote share price methodology to be solely reflective of the value of the Company given the lack of liquidity in XRG shares over the 12 months prior to the 5 Mar Announcement.
- 3) Therefore, we have adopted the valuation range under the sum-of-parts valuation of **3.84 cents per share to 4.74 cents per share**, as our assessed value of XRG shares for the purposes of the Proposed Transaction.

As set out below, in assessing our valuation range, we have had regard to the minimum and maximum value points observed in conjunction with the sum-of-parts approach. Whilst the resulting value range is wide, we are of the opinion that this reflects the early-stage nature of the operations of XRG.

Our assessed value of shares in XRG is summarised in the chart and table as follows:

XRG Shares Valuation Summary



xReality Group Limited Assessed Value per Share (Controlling Basis)		
Cents per Share	Low	High
Value per Share – Sum of Parts Valuation	3.02	3.71
Value per Share – Quoted Share Price	5.18	5.18
Assessed Value per Share on a Controlling Basis	3.02	3.71

Source: Titan Partners Corporate Finance Analysis

9. Value of XRG Post Proposed Transaction

9.1 Valuation Summary

We have determined the market value of XRG post the Proposed Transaction a minority interest basis, to be in the range of 3.08 cents to 3.68 cents per share. In determining this range of value, we specifically relied upon the Revenue Multiple Approach, as summarised below.

xReality Group Limited Value of Consideration Summary (Cents per share)		
Cents per Share	Low	High
Value per XRG share on a Controlling Basis Post Proposed Transaction	4.00	4.78
Less: Minority Discount	23%	23%
Total Value of XRG share on a Minority Interest Basis Post Proposed Transaction	3.08	3.68

Source: Titan Partners Corporate Finance Analysis

The remainder of this section sets out our assessment of the above values for XRG shares post the Proposed Transaction ("Post Transaction XRG Shares"), where our approach considers:

- the current value of XRG as set out in Section 8 above;
- the impact of the conversion of the Birkdale Debt; and
- Total XRG shares on issue post the Proposed Transaction.

9.2 Value of Post Transaction Entity

The value of XRG shares post Transaction held by the existing shareholders is the combined equity value of XRG prior to the Proposed Transaction, after accounting for the impact of the issue of new shares to Birkdale and resultant settlement of the Birkdale Debt.

Set out below is our valuation assessment of XRG equity value post Proposed Transaction.

xReality Group Limited Equity Value Post Transaction (Controlling Basis)			
\$'000s	Note		
Adjusted Equity Value of XRG on Controlling Basis	1	21,918	27,087
Add: Change in Value from settlement of the Birkdale Debt	2	4,628	4,628
Equity Value Post Proposed Transaction (Control Basis)		26,546	31,715
Shares outstanding post Proposed Transaction	3	663,547,525	663,547,525
Equity Value per Share Post Proposed Transaction (cents)	4	4.40	4.78

Source: Titan Partners Corporate Finance Analysis

We note the following with respect to the combined equity value of Post Transaction above:

1. The equity value of XRG on a control basis was assessed in Section 8 above and forms part of the value of XRG post the Proposed Transaction.
2. Under the Proposed Transaction, the outstanding balance of Birkdale Debt per the 1H2025 balance sheet is \$4.628 million, which is converted to equity and no longer remains a liability of the Company. Accordingly, the value of convertible notes is therefore adjusted out of the calculation of equity value.

3. Total post transaction shares on issue of XRG comprises existing shares held by XRG shareholders and new shares issued to Birkdale Debt holders. Our calculation of the post Proposed Transaction shareholding structure is set out per Section 4.2 above.
4. The equity value derived for XRG Post Transaction is by definition on a controlling interest basis, as the equity valuation of the Enterprise Segment using the Revenue Multiple Approach adopted transaction multiples from acquisitions of controlling interests, while the equity value of Entertainment Segment prior to the Proposed Transaction based on an Adjusted Net Assets approach is also on a controlling interest basis. As Existing Shareholders will hold a minority interest in the Company and will continue to hold a minority interest in the Post Transaction entity, we have therefore considered the relevant minority discount to apply to the controlling basis value of XRG, consistent with requirements under RG111 in the assessment of the Proposed Transaction. We applied a discount for minority interest to reflect the level of control held by each shareholder is less than 100%, which is typically imputed from control premiums. The selection of minority discount in a specific situation is based on the level of influence or control associated with a shareholding, and the level of control or influence of the remaining shareholdings. The typical range of discount for ownership of up to 30% of issued capital is 12.5% to 30% for minority interest. The discount for minority interest is derived as the inverse of the control premium which we have to be 30%, as set out below. We therefore adopt an equivalent minority discount of 23.08% in this circumstance, being the inverse of the 30% control premium.

9.2.1 Control Premium

As discussed in Section 8.5 above, we assessed the current value of XRG on a controlling interest basis, as required under RG111. We are also required under RG111 to assess the post Proposed Transaction value of XRG on a minority interest basis. Accordingly, a discount for minority interest must be applied, being the inverse of a premium for control. A control premium reflects the additional value that attaches to a controlling interest in the Company over a minority or portfolio interest as represented by the share price.

The control premium varies from transaction to transaction and is subject to a number of factors, including:

1. nature and magnitude of non-operating assets;
2. nature and magnitude of business opportunities not currently being exploited;
3. level of pre-announcement speculation of the transaction; and
4. level of liquidity in the trade of the target's securities.

Controlling interests in companies are generally not traded on a public exchange, thus the most suitable estimate of control premiums are takeover premiums in transactions. Empirical evidence suggests typical control premiums in a transaction are between 25% and 40%, where "studies in Australia indicate an average premium of around 30% to 35%" and a transaction is "unlikely to succeed at premiums of under 20%"¹⁶. We note this is also supported by recent studies in to control premium summarised in the table below. The long-term average control premium for transactions in Australia over the last 10 years is between 26.5% and 35.4%.

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¹⁶ Lonergan W, "The Valuation of Businesses, Shares and Other Equity, 4th Edition, 2003. A study by RSM Bird Cameron (entitled "Control Premium Study 2021") based on 345 Australian transactions between FY2006 and FY2021 indicates average control premium of 29.5% over share price 5 days before announcement.

Control Premium Study 2021
Transactions in Australia by Year

Financial Year	Number of Transactions	Average Control Premium	Median Control Premium
2012	52	39.5%	28.8%
2013	26	31.4%	14.0%
2014	37	36.1%	22.2%
2015	26	31.4%	31.4%
2016	29	28.3%	21.2%
2017	27	25.5%	27.3%
2018	31	35.9%	27.1%
2019	43	27.6%	28.2%
2020	30	50.7%	36.9%
6 months to 31 Dec 2020	11	48.0%	27.5%

Source: Control Premium Study 2021 published by RSM

In addition to the above, the study found that entities with smaller market capitalisations attract higher premiums, as detailed below.

Control Premium Study 2021
Control Premiums on Transactions by Market Capitalisation

Market Capitalisation	Number of Transactions	Average Control Premium	Median Control Premium
\$0 to \$25M	119	43.8%	40.6%
\$25 to \$50M	67	36.6%	37.1%
\$50 to \$100M	102	32.6%	32.6%
\$100 to \$500M	185	27.0%	26.1%
\$500M +	132	18.0%	17.2%

Source: Control Premium Study 2021 published by RSM

In our assessment of control premium for XRG, we have also reviewed recent corporate transactions in Australia as summarised in the following table.

xReality Group Limited
Potentially Comparable Recent Takeover Premiums in Australia

Date Announced	Target	Bidder	Offer Consideration	Target VWAP	Takeover Premium
25-Mar-24	McGrath Limited	Knight Frank Australia Holdings Pty Ltd	0.60	0.47	27.66%
22-Dec-23	Millennium Services Group Limited	Softbank Robotics Singapore Pte. Ltd.	1.15	0.62	85.48%
11-Sep-23	Cirrus Networks Holdings Limited	Atturra Limited (ASX:ATA)	0.06	0.04	50.00%
07-Mar-23	InvoCare Limited	TPG Global, LLC	12.96	8.95	44.80%
25-Apr-23	Marley Spoon SE	Marley Spoon Group SE (XTRA:MS1)	0.21	0.15	40.00%
26-Feb-24	CSR Limited	Compagnie de Saint-Gobain S.A.	9.00	6.77	32.94%
17-Jun-24	Capitol Health Limited	Integral Diagnostics Limited	0.30	0.33	9.87%
24-May-24	MMA Offshore Limited	Cyan Renewables Pte. Limited	2.60	2.16	20.37%

Source: ASX Announcements, S&P Capital IQ Pro, Titan Partners Corporate Finance Analysis

We note all of the identified transactions in our limited sample were announced with an offer consideration at a premium to the share price (VWAP) prior to announcement of the respective transaction. The observed premiums amongst the eight transactions set out above to the respective target's VWAP ranged widely from 9.87% to 85.48%.

Given the Proposed Transaction comprises the conversion of an existing interest-bearing debt into ordinary equity, the XRG business remains unchanged as a result. Accordingly, unlike takeover or merger transaction where the underlying business held by the Existing Shareholders differs as a result of a proposed transaction, there are no synergistic benefits which may arise as a result of the completion of the Proposed Transaction. In contrast, such synergies are likely to be considered in the five transactions set out above, based on the features of the bidder and target entities at the time the transaction was contemplated, and accordingly was reflected in the takeover premium we calculated in the table. Therefore, we consider the relevant control premium to apply with respect to XRG under the Proposed Transaction should be aligned to the long-term average on control premiums per the Control Premium Study 2021 published by RSM, as summarised on the previous page.

Based on the above, we have assessed and adopted a control premium of 30% for XRG as being reasonable to apply when valuing the XRG shares. We have therefore determined the equity value of XRG post transaction on a minority basis to be between 3.08 cents and 3.68 cents per share.

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10. Evaluation of Proposed Transaction

10.1 Approach

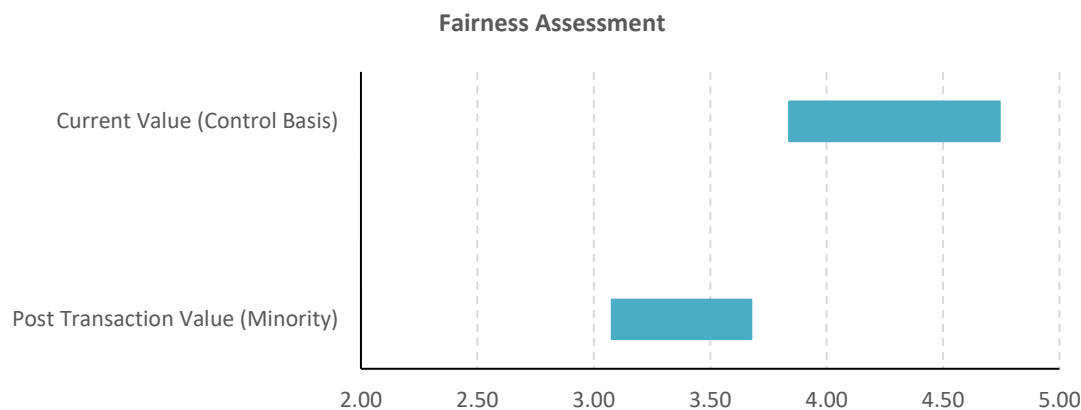
We have adopted the guidelines set out in Regulatory Guides issued by ASIC including RG74 and RG111, which govern the content and use of experts' reports in corporate transactions.

The ASIC regulations require an independent expert to consider takeover proposals under the concepts of "fairness" and "reasonableness", in accordance with RG111.10. We therefore separately consider whether the Proposed Transaction is "fair" and "reasonable" from the perspective of the Shareholders.

10.2 Fair

RG111 considers that a transaction is fair if the value of the offer price or consideration received is equal to or greater than the value of the securities subject to the offer. The comparison should be undertaken assuming a knowledgeable, willing but not anxious buyer and knowledgeable, willing but not anxious seller, where both parties act on an arm's length basis.

As summarised in the following table, the assessed value per XRG share on a controlling basis is between 3.84 cents to 4.74 cents. The value of the notional consideration offered under the Proposed Transaction is represented by the value of Post Transaction XRG Shares, which we have assessed in Section 9 above as 3.08 cents and 3.68 cents. The following illustrates that our assessed valuation range of a XRG share post the Proposed Transaction on a minority basis falls below the valuation range of a XRG share prior to the Proposed Transaction on a control basis. Therefore, in accordance with RG111, our valuation analysis in this Report indicates that, in the absence of any other relevant information, the Proposed Transaction is deemed to be **not fair** to Existing Shareholders.



xReality Group Limited Fairness Assessment		
Cents per Share	Low	High
Assessed Value per XRG Shares prior to Proposed Transaction (Controlling Basis)	3.84	4.74
Assessed Value per XRG Shares post Proposed Transaction (Minority Basis)	3.08	3.68

Source: Titan Partners Corporate Finance Analysis

10.3 Reasonable

RG111 states that a transaction is also “reasonable” if it is “fair”. It also states a transaction may be considered “reasonable” if not “fair”, where an expert concludes there are sufficient reasons to proceed with a transaction in the absence of a higher offer.

While we have assessed the Proposed Transaction as “**not fair**” per Section 10.2 above, we are nonetheless able to conclude that it is “**reasonable**” under guidelines set out in RG111. In forming our opinion with respect to reasonableness, we reviewed the advantages and disadvantages of the Proposed Transaction below and consider that the advantages outweigh the disadvantages of the Proposed Transaction.

10.4 Advantages

In accordance with RG111, we assess the qualitative aspects of the Proposed Transaction to identify the advantages and disadvantages to the Shareholders upon Completion.

Subscription Price Exceeds Share Price

The Birkdale Debt is to be converted at a share price of \$0.05 per newly issued XRG share. Per the 5 March Announcement, the conversion price represents a premium of 39% of the last traded price on 4 March 2025, being the date the Proposed Transaction was announced to the ASX. We further note the subscription price is above the 1-month and 3-month VWAP of XRG being \$0.0398 and \$0.0377 respectively. Notwithstanding that the Existing Shareholders will not receive a full control premium based on our valuation as set out in Section 8 above, Birkdale will effectively pay a price per share which exceeds that paid by any XRG shareholder who has acquired shares over the past 6-months, given the 6-month high for XRG shares was 4.6 cents.

Capital Structure Optimisation

As outlined in Section 4 above, the Proposed Transaction incorporates the conversion of approximately \$4.6 million in Birkdale Debt into equity. As set out in the Balance Sheet of XRG above in Section 5.9, the Company held approximately \$9.17 million of borrowings (current and non-current) as at 31 December 2024. By converting this liability into equity, the Proposed Transaction results in the 1H2025 net asset position of the Business improving by \$4.6 million, post-conversion of the debt. A key impact of the conversion of debt is a material shift in capital structure. Specifically, we note that the optimisation of XRG’s capital structure under the Proposed Transaction substantially alters the risk profile of the Business, by virtue of reducing the debt-to-asset ratio from 19% to 9%. We also note the capital structure shift creates a more attractive investment opportunity for current and potential investors and financiers, and which may facilitate future capital raising activity by the combined entity.

Alignment of Interests between Debt Holders and Shareholders

Under the Proposed Transaction, the conversion of the Birkdale from being both a debtholder and shareholder to solely being a shareholder of the Company creates alignment between former creditors and existing shareholders. This alignment encourages strategic decision-making that benefits long-term equity value rather than focusing solely on short-term debt repayment. It also reduces the risk of conflicts between debt and equity holders regarding capital allocation and corporate strategy.

Reduced Interest and Debt Servicing Costs

Under the Proposed Transaction, the elimination of the Birkdale Debt decreases the future interest expense of XRG and other associated debt servicing costs. This frees up cash flow that can be reinvested into core operations, investment in new growth initiatives, or surplus cashflow shareholder returns. Reduced financial strain can also improve profitability and provide greater flexibility in managing working capital.

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Enhanced Market Perception and Creditworthiness

The reduction of interest-bearing debt in the Company following completion of the Proposed Transaction may improve the company's credit rating and the broader market perception of XRG. A lower debt burden signals to investors and stakeholders that the Company is taking proactive steps to strengthen its capital structure, which may lead to increased investor confidence, greater liquidity in the listed securities and potentially higher share valuations.

No alternative offers

As at the date of this Report, there are no alternative offers or proposals received from other parties with respect to XRG. Accordingly, the Proposed Transaction offers an opportunity to shareholders that is otherwise unavailable.

10.5 Disadvantages

Dilution of Existing Interests

If the Proposed Transaction is approved, the interests of Existing Shareholders will be diluted. As set out in Section 4.2, the issuance of 92,565,249 new shares to Birkdale will increase their total ownership interest in XRG from 17.5% to 29.0%. Prior to the Proposed Transaction, Existing Shareholders collectively held 82.5% of the issued shares of the Company. Upon completion of the Proposed Transaction, those Existing Shareholders will have their collective shareholdings reduce to 71.0% of the enlarged share capital of the Company.

Reduction in Free Float and Extent of Control

If the Proposed Transaction is approved, there will be an impact on the voting power and ownership of XRG. As set out in Section 4.2 above, Existing Shareholder's voting and ownership interests in XRG will be reduced to under 75%, as Birkdale will be issued new shares in the Company.

Upon completion of the Proposed Transaction, Birkdale will hold (inclusive of the additional shares to be issued subject to shareholder approval) 29% of the enlarged issued share capital of XRG. Accordingly, Birkdale will increase the extent of control in the Company. In particular, given Birkdale will hold greater than 25% of shares, Birkdale will have the ability to block special resolutions which require 75% of shareholder votes to proceed.

Interest Tax Expense and Cost of Equity

The Proposed Transaction will reduce the amount of debt carried on the Balance Sheet of XRG, thus reducing interest expense. Interest expense provides tax savings by way of a deduction against taxable income, thus the debt conversion will reduce the future tax deduction available. However, we note that the Company currently holds significant carried forward tax losses, therefore is unlikely to pay income tax in the short to medium term. Furthermore, the cost of equity funding is generally considered higher than the cost of debt. Whilst the current interest rate paid on the Birkdale Debt is 7.5%, the potential cost of equity of XRG could exceed this.

Proposed Transaction may proceed regardless

The Proposed Transaction may proceed even if you choose to vote against it. As a resolution to be voted on at a general meeting of Existing Shareholders, the Proposed Transaction will take place in accordance with the agreed terms where all the requisite conditions and approvals have been received, including approvals by the respective boards and the required number of voting XRG shares. For the Proposed Transaction to be approved, the resolution must be passed at meetings of shareholders by a simple majority of 50% of the votes cast, being an ordinary resolution.

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10.6 Other Considerations of the Proposed Transaction

Director Recommendation

All of the Directors of XRG have recommended that Shareholders to vote in favour of the Proposed Transaction for reasons including the following:

- the “outstanding opportunity to strengthen the Balance Sheet of the Company”; and
- the Proposed Transaction is at “a material premium to the current trading price”.

10.7 Conclusion

After considering the qualitative and quantitative factors of the Proposed Transaction, Titan Partners Corporate Finance conclude that based on our assessment of the factors outlined above, in our opinion, the Proposed Transaction is considered to be **not fair but reasonable**.

The decision of any individual shareholder to accept or reject the Proposed Transaction is subject to and influenced by his or her individual circumstances. Titan Partners Corporate Finance strongly advises Shareholders to consult their independent advisors if in doubt.

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Titan Partners Corporate Finance Pty Limited
 Australian Financial Services Licence
 Number: 427275
 ABN 38 177 095 636
 Level 3, 7 Macquarie Place
 Sydney NSW 2000
 PO Box R415
 Royal Exchange NSW 1225
 Australia
 T +61 2 9268 3300
 www.titanpartners.com.au

Financial Services Guide

Titan Partners Corporate Finance Pty Limited ABN 38 177 095 636 (“**Titan Partners Corporate Finance**”, “**we**”, “**us**”) has been engaged to prepare general financial product advice in the form of an Independent Expert’s Report to be provided to you.

In this circumstance we are required to issue to you, as a retail client, a Financial Services Guide (“**FSG**”). This FSG is designed to assist retail clients to make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

The FSG herein contains information with regards to:

1. who Titan Partners Corporate Finance is and how we can be contacted;
2. services we authorised to provide under our Australian Financial Services Licence;
3. remuneration that we, our staff and any associates receive in connection with the general financial product advice provided; and
4. our complaints handling process and the avenues available to lodge a complaint.

Titan Partners Corporate Finance

Titan Partners Corporate Finance is the corporate finance arm of Titan Partners, which provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert’s reports concerning mergers and acquisitions, takeovers and capital reconstructions.

Titan Partners Corporate Finance holds Australian Financial Services Licence Number 427275.

Financial services we are licensed to provide

The Australian Financial Services Licence we hold authorises us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities (including debentures, shares and bonds), derivatives and interests in managed investment schemes.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

General Financial Product Advice

In our Report, we provide general financial product advice. It was prepared without taking into account your personal objectives, financial circumstances or needs.

You should consider your own personal objectives, financial circumstances or needs in assessing the appropriateness of the general advice we provide and may wish to seek personal advice from the holder of an Australian Financial Services Licence.

Fees, commissions and benefits we may receive

We charge fees to provide reports, including the IER provided herein. These fees are negotiated and agreed with the entity which engages us to provide a report. Our fees are determined on either a fixed amount or charged on an hourly time cost basis. Titan Partners Corporate Finance are expected to receive a fee of approximately \$35,000 for the preparation of this Report. The fee is not affected by whether the Shareholders approve or reject the Proposed Transaction. Except for such fees, Titan Partners Corporate Finance nor any of its directors, officers or associates receive any commissions or further benefits in connection with the report provided.

All of our employees receive a salary. Our employees do not receive any commissions or benefits arising directly from services provided to our clients.

We do not pay commissions or provide any other benefits to any party for referring clients to us in connection with the services that we are licensed to provide.

Complaints

As the holder of an Australian Financial Services Licence, we are required to have a complaints handling system for persons to whom we provide financial product advice. All complaints must be in writing, addressed to Titan Partners Corporate Finance Pty Ltd, PO Box R415, Royal Exchange NSW 1225.

In the event we are unable to satisfactorily resolve your complaint within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited ("**FOS**"), an independent external complaints resolution service established to provide advice and assistance to consumer to assist in resolving complaints relating to the financial services industry. You will not be charged for using the FOS service.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

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Qualifications and Responsibilities

Titan Partners Corporate Finance Pty Limited is the corporate finance arm of Titan Partners, which provides corporate finance services in relation to mergers and acquisitions, capital raisings, corporate restructuring, property and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports concerning mergers and acquisitions, takeovers and capital reconstructions.

Mr Brad Higgs, *B.Com, CA, F.Fin* is responsible for this Report. Mr Higgs has a significant number of years' experience in relevant business advisory and corporate finance matters.

Mr Higgs is acting as a Representative of Titan Partners Corporate Finance pursuant to its Australian Financial Services Licence (No. 427275) held under Part 7 of the *Corporations Act 2001* (Cth) to provide advice on the valuation of securities.

Disclaimers

This Report has been undertaken in accordance with the instructions from the Directors of XRG. In performing this assignment we have accepted all information as presented to us as being free of material misstatement. We have relied on information provided, as set out in Section 3.3. We have evaluated this information through analysis, enquiry and review as appropriate. We do not warrant that our evaluation has identified or verified all of the matters that an audit, extensive examination or due diligence investigation may disclose.

The purpose of this Report, as set out in Section 3.1, is to opine on the Proposed Transaction, although there is no requirement under the *Corporations Act 2001*. We understand that the Directors of XRG wish to obtain an Independent Expert's Report to assist the Shareholders in their decision to accept or reject the Proposed Transaction.

This report has been prepared solely to assist the Shareholders in considering their decisions with respect to the Proposed Transaction. We do not assume any responsibility or liability for any losses suffered by any party as a result of the circulation, publication, reproduction or other use of this report contrary to the provisions of this paragraph.

This Report has been prepared by Titan Partners Corporate Finance with care and diligence and that statements and opinions given by Titan Partners Corporate Finance in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Titan Partners Corporate Finance or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Titan Partners Corporate Finance from liability arising from an opinion expressed recklessly or in bad faith.

Declarations

Our Report has been prepared in accordance with *Regulatory Guide 111 Content of Expert Reports* issued by ASIC, professional standard *APES 225 Valuation Services*, issued by the Accounting Professional and Ethical Standards Board ("APESB") and any other applicable professional standards and statutory requirements, including the *Corporations Act 2001*.

Titan Partners Corporate Finance nor its Representatives or staff have at the date of this Report nor has ever had any shareholding in or other relationship with XRG that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

Titan Partners Corporate Finance will receive a fee based on time costs for the preparation of this Report. This fee is not contingent on the outcome of the valuation report. Titan Partners Corporate Finance will receive no other benefit for the preparation of this Report.

XRG have agreed that to the extent permitted by law to indemnify Titan Partners Corporate Finance employees and officers in respect of any liability suffered or incurred as a result of or arising out of the preparation of this Report; including any claim arising from or in connection with its reliance on information or documentation provided by or on

behalf of XRG which is false, misleading or omits material information. This indemnity will not apply in respect of any conduct involving negligence or wilful misconduct or fraud. XRG have also agreed to indemnify Titan Partners Corporate Finance and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person except where Titan Partners Corporate Finance or its employees and officers are found liable for or guilty of conduct involving negligence or wilful misconduct or fraud in which case Titan Partners Corporate Finance shall bear such costs.

Consents

Titan Partners Corporate Finance consents to the inclusion of this Report in the form and context in which it is included in the Scheme of Arrangement to be issued to Shareholders with respect to the Proposed Transaction. Other than this Report, none of Titan Partners Corporate Finance or its affiliates has been involved in the preparation of the Scheme of Arrangement.

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Appendix 3 – Glossary of Key Terms

Term	Definition
Financial Periods	
FY202x	Audited financial information for the financial year ended 30 June 202x
1H2025	Reviewed Interim financial information for 6-months ending ended 31 December 2025 for XRG
FY2025	Financial year ending 30 June 2025
FY2025 Budget	Actual performance for the six months ended 31 December 2024 and budget performance for the six months ending 30 June 2025
Transaction Terms	
5 March Announcement	XRG announcement to ASX on 5 March 2025, with respect to the Proposed Transaction with XRG and Birkdale.
ARR	Annualised recurring revenue
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
Birkdale	Birkdale Holdings (Qld) Pty Limited, ACN 120 407 981, current shareholder and debtholder of XRG
Birkdale Debt	Current debt owing to Birkdale of approximately \$4.628 million calculated to 30 April 2025
EBITDA	Earnings before interest and tax, depreciation and amortisation
Enterprise Segment	Business units include Operator XR and Red Cartel
Entertainment Segment	Business units include iFly Indoor Skydiving and Freak Entertainment
Existing Shareholders	Current shareholders of XRG, prior to the Proposed Transaction
Mr Jones	Mr Wayne Jones, Co-Founder and Chief Executive Officer of XRG
Mr Tofler	Mr Stephen Tofler, Chief Financial Officer of XRG
NPAT	Net Profit After Tax
Proposed Transaction	Proposed conversion of the Birkdale Debt to 92,565,249 fully paid ordinary shares in the Company
RG 74	ASIC issued Regulatory Guide 74
RG111	Regulatory Guide 111 <i>Content of expert reports</i> dated October 2020
the “Agreement”	The conditional debt repayment and subscription agreement entered into by XRG with Birkdale
the “Report”	This Independent Expert’s Report on the Proposed Transaction
Titan Partners Corporate Finance, “we”	Titan Partners Corporate Finance Pty Limited, AFSL: 427275.
VWAP	Volume Weighted Average Price of listed securities
XRG, xReality, the “Company”, “Business”	xReality Group Limited, ACN 154 103 607

Appendix 4 – Sources of Information

The information set out below was considered, adopted and relied upon by us in forming our opinion and preparing the report herein:

- Audited Financial Statements of XRG for the years ended 30 June 2022 (“FY2022”), 30 June 2023 (“FY2023”), 30 June 2024 (“FY2024”), and for the half year ended 31 December 2024 (“1H25”)
- Management information for the eight months ending 28 February 2025 (“YTD Feb25”);
- Management profit and loss statements for Operator, Red Cartel, iFly, Freak and Corporate for FY2024, 1H25 and FY2025;
- Management estimates of cost allocations of Corporate expenses for FY2024, and 1H25;
- ASX announcements by XRG on 5 March 2025 in respect of the Proposed Transaction;
- Other ASX announcements issued by XRG;
- Debt Repayment and Subscription Agreement between XRG and Birkdale;
- Management information with respect to the operations of XRG;
- Register of Issued Capital in XRG;
- Corporate transaction data and other market data as sourced from S&P Capital IQ;
- Industry Research Reports *Amusement Park and Centres Operations (R9131)* published by IBISworld Australia¹⁷; *Virtual Reality Market Report for 2025 – 2025*, published by Mordor Intelligence¹⁸; *Extended Reality (XR) Market Size, Share & Industry Analysis*, published by Fortune Business Insights¹⁹
- Draft Notice of Meeting with respect to the Extraordinary General Meeting with details of the Proposed Transaction provided by the management of XRG to which this Report accompanies.
- Discussions with directors, management and advisors of XRG, including Mr Wayne Jones in his capacity as Co-Founder and CEO of XRG, and Mr Stephen Tolfer as CFO of XRG.

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¹⁷ Source: <https://my.ibisworld.com/au/en/industry/r9131/>

¹⁸ Source: <https://www.mordorintelligence.com/industry-reports/virtual-augmented-and-mixed-reality-market>

¹⁹ Source: <https://www.fortunebusinessinsights.com/extended-reality-market-106637>

Appendix 5 – Recent ASX Announcements

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xReality Group Limited Company Announcements for the period from 5 March 2024 to 5 March 2025	
Announcement Date	Title
05/03/2025	XRG Investor Presentation HY25
05/03/2025	Debt Conversion at 39% Premium to XRG Market Close
05/03/2025	Proposed issue of securities - XRG
28/02/2025	Appendix 4D and Half Year Financial Report
06/02/2025	Notification of cessation of securities - XRG
06/02/2025	Cleansing Notice
06/02/2025	Application for quotation of securities - XRG
05/02/2025	Proposed issue of securities - XRG
31/01/2025	Quarterly Activities Report and Appendix 4C - 31 Dec 24
28/01/2025	Notification regarding unquoted securities - XRG
09/12/2024	Change of Directors Interest Notice
06/12/2024	Correction and Late Lodgement of Appendix 3Y
02/12/2024	Change of Director's Interest Notice
29/11/2024	Change of Director's Interest Notice
29/11/2024	Change of Director's Interest Notice
29/11/2024	Change of Director's Interest Notice
28/11/2024	Notification of cessation of securities - XRG
28/11/2024	Change of Director's Interest Notice
27/11/2024	Application for quotation of securities - XRG
27/11/2024	Application for quotation of securities - XRG
27/11/2024	Notification regarding unquoted securities - XRG
26/11/2024	Proposed issue of securities - XRG
22/11/2024	Results of 2024 Annual General Meeting
22/11/2024	Operator XR Sales Update November 24
22/11/2024	2024 AGM - Chairman's Address to Shareholders
21/11/2024	Notification regarding unquoted securities - XRG
08/11/2024	Ceasing to be a substantial holder
08/11/2024	Change in substantial holding
31/10/2024	Quarterly Activities Report and Appendix 4C - 30 Sept 24
25/10/2024	2024 Notice of Annual General Meeting
11/10/2024	Additional Funding Secured to Support Order Outlook
25/09/2024	Change of Director's Interest Notice
13/09/2024	XRG Investor Presentation FY24
13/09/2024	2024 Annual Report
13/09/2024	Appendix 4G FY2024
13/09/2024	2024 Statement of Corporate Governance
11/09/2024	\$5.6M contract awarded for US Department of Defense project
06/09/2024	Application for quotation of securities - XRG
05/09/2024	Proposed issue of securities - XRG
05/09/2024	Application for quotation of securities - XRG
05/09/2024	Application for quotation of securities - XRG
29/08/2024	Appendix 4E - Preliminary Final Report
31/07/2024	Quarterly Activities Report and Appendix 4C - 30 June 24
04/07/2024	Operator XR Sales Update June 24
04/07/2024	Operator XR Awarded \$800k Government Contract
02/07/2024	Change of Director's Interest Notice
02/07/2024	Initial Director's Interest Notice
26/06/2024	Application for quotation of securities - XRG
21/06/2024	Notification regarding unquoted securities - XRG

xReality Group Limited
Company Announcements for the period from 5 March 2024 to 5 March 2025

Announcement Date	Title
13/06/2024	Additional Working Capital Secured
03/06/2024	Notification regarding unquoted securities - XRG
30/05/2024	Operator XR Sales Update
28/05/2024	Proposed issue of securities - XRG
13/05/2024	Change of Director's Interest Notice
13/05/2024	Application for quotation of securities - XRG
01/05/2024	Appendix 4C - correction
30/04/2024	Quarterly Activities Report and Appendix 4C - 31 Mar 24
26/04/2024	NOTIFICATION AND RECTIFICATION OF INADVERTANT BREACH OF LIST
26/04/2024	CORRECTION AND LATE LODGEMENT OF APPENDIX 3Y - CHANGE OF DIR
26/04/2024	Notification of cessation of securities - XRG
26/04/2024	Notification of cessation of securities - XRG
26/03/2024	Change of Director's Interest Notice
22/03/2024	Change of Director's Interest Notice
18/03/2024	Change of Director's Interest Notice
15/03/2024	Change of Director's Interest Notice
11/03/2024	Change of Director's Interest Notice

Source: ASX

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Appendix 6 – Comparable Transaction Multiples

Set out below are the transaction multiples for identified comparable transactions to XRG. A summary of each of the identified transactions and a summary of the business operations of the target company in each transaction are set out on the subsequent pages.

xReality Group Limited Comparable Transaction Multiples									
Announced Date	Target	Acquirer	Percentage Sought %	Transaction Value (m)	Enterprise Value (m)	Country	Revenue Multiple	EBITDA Multiple	Note
Virtual Training									
8/05/2021	Cornerstone OnDemand, Inc.	Clearlake Capital Group, L.P.	92%	6,569.5	7,042.4	USA	6.3 x	26.9 x	A
Virtual Reality & Simulation									
17/11/2014	ChyronHego Corporation	Vector Capital Management, L.P.	100%	117.0	117.0	USA	2.0 x	21.62	B
28/06/2023	ESI Group SA	Keysight Technologies, Inc.	51%	1,503.5	746.5	France	6.8 x	66.6 x	C
25/06/2020	Vricon, Inc.	Maxar Technologies Inc.	50%	378.0	172.4	USA	4.8 x	7.6 x	D
12/10/2018	L3 Technologies	Harris Corp.	100%	26,675.8	19,723.0	USA	2.0 x	7.7 x	E
23/09/2019	Arotech Corporation	Greenbriar Equity Group, L.P.	100%	152.2	101.0	USA	1.1 x	14.7 x	F
16/12/2022	Maxar Technologies Inc.	Advent International, L.P.	100%	9,752.2	6,554.0	USA	3.7 x	19.8 x	G
Average							3.8 x	23.6 x	
Median							3.7 x	19.8 x	

Source: S&P Capital IQ

From the above identified transactions, we consider the businesses labelled C, E, F, and G in the basket as being most directly comparable to XRG Enterprise, as these businesses have operations in booking and scheduling of appointments, being a similar service offering as XRG Enterprise.

Note A – Cornerstone OnDemand, Inc. provides learning and people development solutions as software-as-a-service worldwide. The company offers a range of services, including learning and development, performance management, recruiting and onboarding, analytics and reporting, and workforce planning.

Note B – ChyronHego Corporation provides broadcast graphics creation, play-out, and real-time data visualisation for live television, news, and sports production. Further, it offers production, custom development, timing and data, technical, support, and training services.

Note C – ESI Group SA designs, develops, and distributes virtual prototyping software solutions in Europe, the Middle East, Africa, the Asia Pacific, and the Americas. It also provides SimulationX, a single platform for modelling, simulating, and analysing technical systems.

Note D – Vricon, Inc. develops and delivers 3D geodata and visualization solutions that enable imagery content to represent various visible objects on the Earth in 3D. The company offers photorealistic 3D products to elevate data of Earth.

Note E – L3 Technologies offers engineering, modernisation and sustainment, space avionics and imaging payload, counter unmanned aircraft systems missions, cyber and electronic warfare, special mission command and control, modelling and simulation, and life cycle support services for ISR, airborne sensor, warrior sensor, space and sensor, aircraft, and intelligence and mission systems, as well as military aviation services and advanced programs.

Note F – Arotech Corporation provides defense and security products worldwide. The company’s Training and Simulation division develops, manufactures, and markets multimedia and interactive digital solutions for engineering, use-of-force training, and operator training of military, law enforcement, security, emergency services, and other personnel.

Note G – Maxar Technologies offers earth imagery and other geospatial data sourced from its advanced satellite constellation and third-party providers to public sector and enterprise customers, as well as a provides advanced geospatial information, applications, and analytic services for national security and commercial solutions.

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Appendix 7 – Comparable Trading Multiples

Set out below are the trading multiples for identified comparable public to XRG Enterprise. A summary of the business operations of each comparable company are set out on the subsequent pages.

xReality Group Limited – Enterprise Segment Comparable Trading Multiples				
Company	Market Cap (\$m)	Enterprise Value (\$m)	Revenue Multiple Current LTM	Note
L3Harris Technologies, Inc. (NYSE:LHX)	63,017	82,820	2.4 x	A
Northrop Grumman Corporation (NYSE:NOC)	114,178	135,998	2.0 x	B
General Dynamics Corp (NYSE:GD)	114,349	128,655	1.7 x	C
Textron Inc (NYSE:TXT)	21,494	25,593	1.1 x	D
Vection Technologies Limited (ASX:VR1)	35	41	1.2 x	E
Nextech3D.AI Corporation (OTCQB:NEXC.F)	9	13	3.6 x	F
CAE Inc (TSX:CAE)	12,928	16,757	3.3 x	G
Byrna Technologies, Inc. (NASDAQCM:BYRN)	639	603	4.5 x	H
Rheinmetall AG (XTRA:RHM)	98,666	101,393	6.0 x	I
Average			2.9 x	
Median			2.4 x	

Source: S&P Capital IQ

Note A – L3Harris Technologies is a global aerospace and defence company that provides advanced communication, surveillance, and electronic systems, specializing in solutions for defence, space, and security. The company offers virtual reality and simulation-based training systems to enhance mission readiness and improve operational performance for military and defence clients. Its integrated technology solutions support real-time decision-making and operational efficiency across complex defence and security environments.

Note B – Northrop Grumman Corporation is a leading global aerospace and defence company that provides advanced systems and solutions in autonomous systems, cybersecurity, space, and missile defence. The company offers virtual reality and simulation-based training to enhance combat readiness and operational effectiveness for military and defence clients. Its innovative technology solutions support real-time situational awareness and decision-making in complex defence environments.

Note C – General Dynamics Corporation is a global aerospace and defence company that provides advanced products and services in combat systems, information technology, shipbuilding, and business aviation. The company offers virtual reality and simulation-based training systems to improve military readiness and enhance operational performance. Its integrated solutions support real-time decision-making and mission success in complex defence and security operations.

Note D – Textron Inc. is a global aerospace and defence company that designs and manufactures aircraft, military vehicles, and precision weapons systems. The company provides virtual reality and simulation-based training solutions to enhance pilot training and military preparedness. Its advanced technologies support mission readiness and operational efficiency across defence and security sectors.

Note E – Vection Technologies Limited is a global technology company that provides immersive software and hardware solutions, specializing in virtual reality (VR), augmented reality (AR), and mixed reality (MR). The company offers simulation-based training systems to enhance workforce productivity and improve decision-making in defence, aerospace, and industrial sectors. Its integrated solutions enable real-time collaboration and operational efficiency through advanced 3D visualization and interactive experiences.

Note F – Nextech3D.ai Corporation is a technology company specialising in artificial intelligence (AI) and 3D modelling solutions for e-commerce, advertising, and training applications. The company provides virtual reality and simulation-based training systems to enhance user engagement and improve operational efficiency across defence, education, and industrial sectors. Its AI-powered solutions enable real-time 3D content creation and immersive experiences for improved decision-making and training outcomes.

Note G – CAE Inc. is a global leader in training and simulation solutions for the aerospace, defence, and healthcare sectors. The company provides advanced virtual reality and simulation-based training systems to enhance pilot proficiency, military readiness, and healthcare outcomes. Its integrated solutions support real-time decision-making and operational performance through immersive, high-fidelity training environments.

Note H – Byrna Technologies Inc., a less-lethal self-defence technology company, develops, manufactures, and sells less-lethal personal security solutions in the United States, South Africa, Europe, South America, Asia, and Canada. The company's products include handheld personal security devices and shoulder-fired launchers designed for use by consumers and professional security customers without the need for a background check or firearms licence.

Note I – Rheinmetall AG is a global defence and automotive company that provides advanced systems and solutions for military vehicles, weapons, and electronic systems. The company offers virtual reality and simulation-based training systems to enhance combat readiness and operational effectiveness for defence forces. Its integrated technology solutions support real-time situational awareness and decision-making in complex military environments.